

# **CITY OF LONG BEACH HOUSING TRUST FUND STUDY**

## **PART I POLICY GUIDELINES, PRACTICES, AND PROGRAM ADMINISTRATION**

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**Table of Contents**

	<u>PAGE</u>
<b>I. Introduction.....</b>	<b>1</b>
<b>II. Governance of the Housing Trust Fund.....</b>	<b>1</b>
A. Degree of Control .....	1
B. Source of Funds .....	2
C. Political Environment.....	2
<b>III. Program Development.....</b>	<b>3</b>
A. Eligible Uses of Funds .....	3
B. Eligible Borrowers, Grantees.....	5
C. Income Targeting .....	7
1. Use of Housing Trust Funds.....	7
2. Amount of Subsidies Available.....	8
3. Sources of Funds for the Housing Trust Fund .....	8
4. Restrictions Imposed by Leverage Sources of Funds .....	9
5. Definition of Affordable Housing Expense.....	9
D. Term of Affordability .....	10
1. Rental Housing.....	10
2. Ownership Housing.....	10
3. Evidencing Affordability Restrictions.....	10
E. Geographic Targeting.....	10
F. Capital and Strategic Planning.....	11

**CITY OF LONG BEACH HOUSING TRUST FUND STUDY  
POLICY GUIDELINES, PRACTICES, AND  
PROGRAM ADMINISTRATION**

**Table of Contents  
(continued)**

	<u>PAGE</u>
<b>IV. Program Administration.....</b>	<b>12</b>
A. Funding Mechanisms.....	13
1. Notice of Funding Availability/Open Window .....	13
2. Request for Proposals.....	14
3. Developing Award Criteria .....	15
B. Form of Financial Assistance .....	17
1. Affordable Housing Development and Preservation, and Supportive Housing Development.....	19
2. Land Banking.....	21
3. Sponsor Capacity .....	22
4. Rehabilitation and Code Enforcement.....	23
5. Home Purchase Assistance.....	23
C. Underwriting and Deal Structuring .....	27
1. Multifamily Underwriting.....	27
2. Multifamily Deal Structuring .....	31
3. Single Family Deal Structuring and Processes .....	33
D. Asset Management.....	34
1. Loan Approval.....	35
2. Loan Monitoring.....	36
3. Protocols, Actions .....	37

Appendices

Appendix A: Analysis of Revenue Sources  
Appendix B: Analysis of Revenue Projections

**CITY OF LONG BEACH HOUSING TRUST FUND STUDY  
POLICY GUIDELINES, PRACTICES, AND  
PROGRAM ADMINISTRATION**

**List of Tables**

<u>TABLE</u>	<u>TITLE</u>	<u>PAGE</u>
1	Examples of Appropriate Borrowers/Grantees, Based on Uses of Funds .....	6
2	Examples of Appropriate Forms of Financial Assistance, Based on Uses of Funds .....	18
3	Potential Project Problems, Indicators, Actions, and Preventive Measures to Address Potential Problems .....	38

## **City of Long Beach Housing Trust Fund Study**

### **Policy Guidelines, Practices, and Program Administration**

#### **I. Introduction**

David Paul Rosen & Associates (DRA) was retained by the City of Long Beach to advise the City regarding the development of policy guidelines and program administration for a housing trust fund. This report provides an outline of the issues the City should consider as it develops its housing trust fund program. Issues addressed in this report are as follows:

- form of governance of the housing trust fund;
- program development for uses of housing trust funds;
- capital planning; and,
- administration of the housing trust fund.

#### **II. Governance of the Housing Trust Fund**

One of the most important decisions for the City is the governance structure of the housing trust fund. The governance structure will determine the ultimate control over the use of housing trust funds. This section discusses alternative forms of governance of a housing trust fund.

The form of governance of a housing trust fund depends upon three factors: the desired degree of control retained by City staff and City Council, the sources of funds needed to capitalize the housing trust fund, and the conventions within the City regarding oversight and expenditure of City funds for affordable housing.

##### **A. Degree of Control**

Housing trust funds use a variety of forms of governance, from complete control held by a jurisdiction to complete control by a board independent from a jurisdiction. We strongly recommend that the City retain complete control over the governance and administration of a housing trust fund. Retaining control over governance and administration allows the City to meet its public policy interests with housing trust funds without need for approvals from independent entities that may have conflicting interests or opinions from the City.

## **B. Source of Funds**

Generally, foundations and corporations are not willing to capitalize housing trust funds under the control of and administered by a governmental agency. For example, the Housing Trust of Santa Clara County, created by the Silicon Valley Manufacturers Group and local jurisdictions, was governed by appointees from corporations, foundations, and local government representatives supporting the Housing Trust. Funding decisions were not under the control of any single governmental agency. Instead, local governments were represented on the Board of Directors and a Technical Advisory Committee established by the Housing Trust.

We expect that primary sources of funding for a housing trust fund would be public sources, such as redevelopment agency set-aside funds, HOME funds, and Community Development Block Grants. New potential sources of revenues would be commercial linkage fees and in lieu fees from an inclusionary housing program. It is unlikely that foundation and corporations will support funding. Because sources of funds for a housing trust fund are most likely to be public, the City should retain control over governance of the housing trust fund.

## **C. City Conventions**

The City should develop a coherent method for administering all of its affordable housing funds. The administration of the housing trust fund should work seamlessly with other affordable housing funding support provided by the City. Application, application evaluation, and approval processes should be similar for all sources of affordable housing finance available from the City. Developing City “conventions” for all of its affordable housing finance provides developers with a consistent environment for securing financing from the City, which is valuable because of the several layers of financing needed to finance affordable housing developments.

Given the factors described above – degree of control, source of funds, and City conventions, we recommend that the Housing Trust Fund be treated as a subfund of the existing Housing Development Fund. The Housing Development Fund is administered by the City’s Housing Services Bureau. Bureau staff can then evaluate and recommend the most suitable use of housing trust funds along with other affordable housing resources, such as 20 percent housing set-aside funds, HOME funds, and other housing-related sources. Recommendation by Bureau staff will then be made to either the City Council or to the Long Beach Housing Development Company. Using this process, the City retains complete control over the use of housing trust funds, which is appropriate because likely sources of funds for a housing trust fund will be public. In addition, the administration of the housing trust fund will work seamlessly with other sources of affordable housing funds administered by the City.

### **III. Program Development**

As the City develops its housing trust fund program, it must consider its policy priorities. In summary, the City should define:

- eligible uses of housing trust funds;
- eligible borrowers/grantees; and,
- income targeting.

Integrally related to these policy priorities is the availability of leverage sources of financing and defining affordable housing expense. In addition, the City may wish to consider geographic targeting of its housing trust funds. This section discusses these policy issues, as well as capital planning that can assist the City with determining policy priorities.

#### **A. Eligible Uses of Funds**

When establishing a housing trust fund, most jurisdictions use general language when defining the purpose, and therefore the eligible uses, of a housing trust fund. For example, jurisdictions will state that a housing trust fund is used to support the production and preservation of affordable housing. By using such general language, the jurisdiction has flexibility to target a variety of housing needs. Because affordable housing needs may change over time, this flexibility is important. Therefore, when initially developing a housing trust fund, the City should define eligible uses of funds as broadly as politically feasible. It is critical to avoid excluding potential uses of funds as both housing needs and political views change. In summary, housing trust funds can be used to finance several uses, including the following uses:

- affordable housing development
  - single family housing
  - multifamily housing development
  - mixed use housing development
  - new construction
  - acquisition/rehabilitation
- affordable housing preservation
- supportive housing
- land banking
- sponsor capacity building
- rehabilitation (including code enforcement)
- home purchase assistance (financial assistance and homeownership counseling)

In contrast, when making funds available from the housing trust fund, a jurisdiction should respond to identified affordable housing needs. For example, the City has currently defined acquisition/rehabilitation and rehabilitation of rental stock built in the 1970's as important policy priorities. To address these needs, the City should direct housing trust funds toward these activities. As priorities change, the City can direct housing trust funds toward other priorities.

When making funds available, the uses of funds described above are not mutually exclusive. For example, the City can issue a Notice of Funding Availability (NOFA) for multifamily affordable housing that is open to both new construction and acquisition/rehabilitation.

By defining eligible uses of funds, the City should define tenure based on these uses. In summary, tenure can be defined under the following categories:

- owner
- renter
- mixed tenure (renter and owner)
- lease-to-own

For political reasons, it may be necessary to develop set-asides based on tenure. For example, in order to secure adoption of a housing trust fund ordinance, a city may have to set-aside a percentage of housing trust funds for ownership development if increasing homeownership rates is a priority of the city council.

Similar to uses of funds, the alternative categories of tenure do not have to be mutually exclusive when the City makes funds available.



## **B. Eligible Borrowers, Grantees**

Similar to defining eligible uses of funds, the City should broadly define eligible borrowers and/or grantees of the housing trust fund. Broadly defining eligible borrowers and grantees when initially developing a housing trust fund provides the City with flexibility to meet a variety of affordable housing needs over time.

Potential borrowers/grantees include:

- nonprofit affordable housing developers
- for-profit affordable housing developers
- joint ventures between nonprofit developers and for-profit developers
- service providers
- individuals
- government agencies and/or affiliates (such as the Long Beach Housing Development Company)

When making funds available, the City should define eligible borrowers and grantees based on the targeted uses of the funds. **Table 1** provides a listing of appropriate borrowers and grantees based on the targeted use of funds:

**Table 1**  
**Examples of Appropriate Borrowers/Grantees**  
**Based on Uses of Funds**  
**City of Long Beach Housing Trust Fund Study**

<b>Use of Funds</b>	<b>Appropriate Borrowers/Grantees</b>
Affordable Housing Development, Preservation, and Acquisition/Rehabilitation	<ul style="list-style-type: none"> <li>• nonprofit affordable housing developers</li> <li>• for-profit affordable housing developers</li> <li>• joint ventures between nonprofit developers and for-profit developers</li> <li>• individuals (with affordable housing development experience)</li> </ul>
Supportive Housing	<ul style="list-style-type: none"> <li>• service providers</li> <li>• joint ventures between service providers and affordable housing developers</li> </ul>
Land Banking	<ul style="list-style-type: none"> <li>• nonprofit affordable housing developers</li> <li>• government agencies and affiliates</li> </ul>
Sponsor Capacity Building	<ul style="list-style-type: none"> <li>• nonprofit affordable housing developers</li> <li>• service providers</li> </ul>
Rehabilitation	<ul style="list-style-type: none"> <li>• individual property owners</li> </ul>
Code Enforcement	<ul style="list-style-type: none"> <li>• individual property owners</li> </ul>
Home Purchase Assistance	<ul style="list-style-type: none"> <li>• nonprofit homeownership counseling services</li> <li>• individual homebuyers</li> </ul>

With some categories of uses of funds, there are multiple appropriate borrowers/grantees. For example, with supportive housing, service providers and joint ventures between service providers and affordable housing developers are appropriate borrowers/grantees. Supportive housing is affordable housing development combined with services that assist persons with complex issues, such as long-term disabilities, drug abuse issues, and homelessness. Supportive housing developments are permanent housing where residents sign leases and pay rent, similar to standard rental housing. In addition, operators of

supportive housing ensure that appropriate services are provided to residents. The City's financing role determines which entity is the appropriate recipient of funds. The City could financially support the development of the building structure and/or the services provided to residents. If the City chooses to finance the development of the building structure, then it is appropriate to provide funds to joint ventures between affordable housing developers and service providers. If the City chooses to finance services provided to residents, then it is appropriate to provide funds to service providers.

The City can also target particular borrowers/grantees. In these cases, the City can skew criteria for the award of funds to these targeted groups. For example, if the City seeks to target nonprofit housing developers (rather than for-profit developers) with a NOFA for affordable housing development, then it can provide additional points to nonprofit housing developers in the criteria for awarding funds.

### **C. Income Targeting**

Defining targeted household incomes when using housing trust funds depends upon several factors, including:

- use of housing trust funds
  - identified affordable housing needs in the City
  - tenure of affordable housing development (e.g. rental, ownership, mixed tenure, lease-to-own)
  - eligible borrowers/grantees
- amount of subsidies available for targeted income group
- sources of funds for the housing trust fund
- restrictions imposed by sources of leveraging financing

#### **1. Use of Housing Trust Funds**

Typically, jurisdictions will target very low and low income households when funding rental housing. Jurisdictions will target low and moderate income households when funding ownership housing, both through owner housing development and home purchase assistance. It is usually difficult to provide affordable homeownership opportunities for very low income households because of the high per unit subsidies required to serve that targeted income group and the relative lack of sources of funds to leverage housing trust funds.

With code compliance, the City could avoid targeting any income groups because the overriding public policy purpose is to provide safe, decent housing. Code compliance is the "stick" that prompts property owners to improve their properties, while housing trust funds

provide the “carrot” that provides property owners with financial incentive to undertake code compliance rehabilitation of their properties. Alternatively, the City might target particular neighborhoods to concentrate its code compliance activities.

With rehabilitation loans not associated with code compliance, the City may or may not seek to target income groups. Generally, we recommend imposing income requirements if City funds are used to rehabilitate properties. Otherwise, the City is subsidizing an activity that will ultimately enrich the property owner and perhaps lead toward gentrification. However, the amount of subsidy provided by the City will determine whether it can impose income restrictions. If the amount of subsidy available from the City is not sufficient to compensate owners for accepting long-term income restrictions, then owners will not participate in the program.

## **2. Amount of Subsidies Available**

The amount of subsidies available, either from the housing trust fund or sources of funds available to leverage the housing trust funds, may affect which groups the City will target. For example, we describe earlier that typically it is difficult to provide affordable homeownership opportunities for very low income households because of the high subsidy amounts needed. However, if the City is able to develop a substantial source of funds to capitalize the housing trust fund, then it may be possible to provide homeownership opportunities to very low income households.

The amount of subsidies available from other sources, such as the State of California Housing and Community Development Department and the Low Income Housing Tax Credit program, will affect the City’s ability to reach targeted income groups. For example, one of the primary reasons that it is easier to provide rental housing opportunities for very low income persons is the relatively substantial amount of leverage sources of funds available for rental housing rather than ownership housing. The Low Income Housing Tax Credit program is probably the best example of a substantial source of subsidy that is available for rental housing and not available for ownership housing. As we discuss in the next section, the affordable housing requirements of these sources of leverage will affect the targeted income groups of developments.

## **3. Sources of Funds for the Housing Trust Fund**

Jurisdictions can use a variety of sources of funds to capitalize a housing trust fund. Income restrictions may accompany these sources of funds. For example, if a city chooses to use redevelopment housing set-aside funds, California Redevelopment Law imposes income and affordable housing expense restrictions. Therefore, jurisdictions should review any regulatory requirements accompanying the source of funds for their housing trust funds.

#### **4. Restrictions Imposed by Leverage Sources of Funds**

Typical affordable housing developments in California require multiple sources of funds, such as Low Income Housing Tax Credits, HOME funds, CDBG funds, and redevelopment agency housing set-aside funds. Each source of subsidy is accompanied by income restrictions, set-aside requirements, and definitions of affordable housing expense. Developers review the regulations for each source of subsidy and set their rents or home sale prices according to the most restrictive income restrictions and set-aside requirements that apply.

The City can approach this issue by setting relatively higher income requirements and lower set-aside requirements with the understanding that other sources of financing, such as Low Income Housing Tax Credits, will impose more restrictive income requirements and higher set-aside requirements. Other cities impose income restrictions and set-aside requirements that meet their public policy purposes. These cities do not rely upon alternative sources of leverage to meet their targeted income and set-aside goals.

#### **5. Definition of Affordable Housing Expense**

As we discuss above, the definition of affordable housing expense is tied to the sources of funds for the housing trust fund as well as potential sources of leverage for housing trust funds. California Redevelopment Law, the Low Income Housing Tax Credit program, tax-exempt bond financing, HOME, and CDBG all may have different definitions for affordable housing expense. Generally, however, these sources define affordable housing expense for rental households at 30 percent of household income, net of utility allowances. With ownership housing, affordable housing expense is typically defined as 35 percent of household income with allowances for property taxes, insurance, and housing maintenance allowances. In addition, some jurisdictions require allowances for homeowner association dues. To the greatest extent possible, the City should use affordable housing expense definitions that are consistent with sources of leverage financing for affordable housing development.

A related factor is defining occupancy standards. Similar to definitions for affordable housing expense, different housing programs may use different occupancy standards, which then affects the calculation of household income. For example, the Low Income Housing Tax Credit program uses an occupancy standard of 1.5 persons per bedroom. For a three bedroom unit, affordable housing expense is based on the assumption that 4.5 “persons” occupy the unit. Other housing programs may calculate occupancy by using a standard of one person per bedroom, plus one additional person. Using that methodology, affordable housing expense for a three bedroom unit is based on the assumption that 4 persons occupy the unit. These two alternative methodologies result in two different definitions of affordable housing expense.

## **D. Term of Affordability**

### **1. Rental Housing**

Essentially, borrowers/grantees will tolerate longer terms of affordability only if they believe the subsidies available from the housing trust fund sufficiently offset affordability restrictions. As we discussed in the report on inclusionary housing policies, most cities establish renter affordability restrictions between 20 to 55 years, with some jurisdictions imposing affordability restrictions in perpetuity. If the City intends to provide substantial subsidies with its affordable housing programs, then borrowers/grantees will more likely accept very long affordability restrictions. Affordability requirements are typically evidenced by recorded regulatory agreements.

Finally, term of affordability will be influenced by other sources of leverage financing. Sources of leverage financing impose income restrictions and terms of affordability (or resale restrictions). For example, the Low Income Housing Tax Credit program imposes 55 year rent restrictions. At a minimum, the City should use affordability terms that match the terms imposed by sources of leverage financing.

### **2. Ownership Housing**

As we discuss in the program administration section, cities can establish resale restrictions when providing mortgage assistance. It is typical for resale restrictions to expire within a defined period of time, such as 30 years. However, with each sale of the property, unless the owner has held the property for longer than 30 years, a new resale restriction period is imposed.

### **3. Evidencing Affordability Restrictions**

Imposing affordability restrictions, either through regulatory agreements (or ground leases) with rental developments and resale restrictions (and occupancy requirements) with homebuyer assistance, requires that cities develop asset management systems to ensure that developers and homebuyers are meeting their obligations. An asset management system should enable a city to determine if developers are renting their units at affordable rates, units are occupied by eligible households, homes are sold to eligible households, and resale restrictions are managed properly.

## **E. Geographic Targeting**

The City can structure its housing assistance to meet multiple public policy goals. For example, the City can focus on acquisition and rehabilitation as a strategy to provide affordable housing opportunities as well as encourage neighborhood revitalization.

Community revitalization efforts can be geographically targeted to focus scarce resources on designated neighborhoods to enhance the impact of community development efforts. Geographically targeted lending tied to neighborhood revitalization is one important component of community revitalization efforts.

Examples of geographically targeted lending programs include:

- new construction in targeted areas
- acquisition and acquisition/rehabilitation of existing multifamily rental housing
- small property (owner-occupied or rental) housing rehabilitation
- neighborhood revitalization through homeownership assistance

With homeownership assistance, the City can provide subsidies or apply more liberal underwriting standards to assist homebuyers to purchase homes in targeted neighborhoods. In addition, these programs may provide assistance to developers seeking to develop new construction or purchase and rehabilitate dilapidated homes, including vacant and absentee-owned properties (major causes of blight in many cities) in designated neighborhoods. In this instance, subsidies would be used to assist with funding the purchase and/or rehabilitation of dilapidated properties.

With geographic targeting of resources, the City can help facilitate development by defining criteria for key areas, surveying the targeted areas, and then developing an inventory of key sites.

## **F. Capital Planning**

A key tool that the City can use to develop housing program priorities and a framework for housing trust fund spending is a long-term capital plan. A capital plan can assist the City with making program decisions based on the amount of projected revenues available from a housing trust fund and the sources of leverage financing available.

In summary, a capital plan incorporates:

- projections of housing trust fund revenues, ideally for rolling three to five year periods, revised annually;
- costs associated with affordable housing program options;
- estimates of number of households assisted by affordable housing program option; and,
- three to five year projections of spending, revised annually.

Projecting housing trust fund revenues is a matter of developing estimates over time of potential sources of funds, such as redevelopment tax increment set-aside revenues, commercial linkage fees, HOME funds, and in lieu fees from an inclusionary housing program. It is relatively simple to project revenues from tax increment set-aside and HOME funds. It is more difficult to project revenues from commercial linkage fees because of the uncertainty associated with timing of commercial development. In addition to the problem of estimating the timing of housing development, it is difficult to estimate the number of developers who choose to pay in lieu fees rather than construct inclusionary units. Generally, we recommend that cities develop “high, medium, low” projections of revenues from these sources because of this difficulty.

Costs associated with affordable housing program options are based on a number of factors. These factors are as follows:

- per unit development cost of program option;
- target household incomes and associated housing affordability gaps; and,
- availability of subsidies to leverage City housing trust funds.

A capital plan will outline the costs associated with each of these factors for each affordable housing program option.

We recommend that the City develop a capital plan for the housing trust fund that encompasses all local affordable housing revenues and realistic estimates of leverage financing. From the projections of housing trust fund revenues and other sources of affordable housing finance (local, state, federal, and private) and the estimates of costs associated with affordable housing program options, the City can then quantify, over time, the number of households it can assist. The City will be able to project its housing trust fund balances over time depending upon alternative uses of housing trust funds. With this tool, the City can weigh the costs and benefits of alternative affordable housing programs over a three to five year period, and make decisions on uses of housing trust funds based on these analyses. The three to five year projections can be revised annually to reflect actual revenues and spending.

#### **IV. Program Administration**

This section discusses important aspects of administering a housing trust fund program. In summary, the following issues are discussed:

- funding mechanisms;
- forms of financial assistance;
- underwriting and deal structuring; and,
- asset management.



## **A. Funding Mechanisms**

There are two general categories of funding mechanisms: a notice of funds availability (NOFA) process, or a request for proposals (RFP) process. This section describes the advantages and disadvantages of both processes.

### **1. Notice of Funding Availability/Open Window**

With a Notice of Funding Availability (NOFA), the City publicizes the availability of funds. As applications are submitted, the City reviews them to determine if the applications meet the City's award criteria. If the criteria are met, then funds are awarded to the applicant. Funds are available on a first-come, first-served basis.

This funding mechanism works well if the housing trust fund program serves projects that are generally similar and comparing applicants is not especially useful given the award criteria. For example, if housing trust funds are used for downpayment or mortgage assistance, a NOFA works well. The City does not need to expend time and energy comparing homebuyer applicants for downpayment or mortgage assistance. Instead, it is important that applicants meet certain criteria (e.g. household income) and it is imperative that the City process loans quickly to avoid slowing the home purchase process. Slowing the home purchase process reduces the number of home purchase options for homebuyer assistance program participants, which we discuss later.

An additional example is providing rehabilitation loans to small property owners. These developments are relatively similar. Therefore, comparing applicants is not necessarily useful. Instead, the most important public policy purpose is eliminating blighted conditions, which is addressed as long as award criteria are met, such as condition of the buildings.

Whether a jurisdiction uses a NOFA process for funding larger affordable housing developments also depends upon the level of demand for funds. If there is significant competition for funds, we do not recommend using a NOFA process. A NOFA process does not allow City staff to compare alternative funding opportunities and make funding decisions based on these comparisons. Instead, funding is available to the first applicants to the City that meet funding criteria, which may represent a good but not optimal use of funds. To mitigate this problem, the City could issue multiple NOFA's throughout the year. Even with the issuance of multiple NOFA's, there is no guarantee that the "best" development opportunities will be funded. Key projects may be left unfunded because of poor timing with the issuance of NOFA's. If the City chooses to use a NOFA process, it is critical that the City develop threshold criteria that support City goals.

Conversely, if the demand for funds does not greatly exceed available funds, then a NOFA process can be appropriate. There is no need to compare development proposals because the City has the ability to fund most projects. As long as threshold criteria are met, the City's public policy goals are generally achieved.

A NOFA process also can work if the City seeks to work with development partners to acquire sites. Because acquisition of sites is opportunity driven, an open window to access funds allows developers to seek the best opportunities rather than requiring developers to respond to a deadline for submitting proposals (which is the case with a request for proposals process). This strategy is especially useful to developers in an environment where property owners have multiple opportunities to sell and purchase options are not competitive. In conjunction with such a program, we recommend that the City consider a “pre-qualification” process to qualify a short list of developers to bring forward proposals to the City. With this process, the City would issue a Request for Qualifications and then conduct due diligence on the developers.

There is risk with this strategy, however. Because developers have not had time to apply for other sources of funding necessary to bridge affordability gaps, the City may be providing acquisition loans on sites where development will occur at a much later date, if at all. It is critical that the City work with affordable housing development partners with a strong track record for completing projects on a timely basis. Alternatively, the Long Beach Housing Development Company can act as a “land bank”, where it holds the property and then ground leases the property to a developer that has secured acquisition/rehabilitation financing. The one potential problem is when the Long Beach Housing Development Company holds the property for a long period of time. Management and public perception problems arise if rehabilitation work is delayed.

With a NOFA process, it is especially important to develop threshold standards for applications. An application is deemed complete only when all threshold standards are met. By applying threshold standards for applications, the City avoids the situation where a developer submits a skeletal application to ensure funding of the application.

## **2. Request for Proposals**

With a Request for Proposals (RFP) process, the City announces that funds are available. In contrast with a NOFA, the City will review all proposals at one time and make funding decisions based upon the projects that best meet funding criteria. This process is especially useful if there is competition for funds. For example, the Tax Credit Allocation Committee (TCAC) uses an RFP process because the demand for low income housing tax credits greatly exceeds the supply. The RFP process allows TCAC to make awards based on its public policy priorities.

Importantly, the City must time its RFP process to work with other important sources of leverage financing. For example, if the City seeks to fund affordable rental development, then it should time its RFP process so that successful applicants secure the City’s commitment prior to applying to TCAC for an allocation of low income housing tax credits. A fully binding commitment of City funds to a project significantly helps an applicant for tax credits. TCAC favors projects that have achieved a defined level of “readiness to proceed”, which

includes securing all sources of construction financing including local government financing.

Depending upon the amount of funds available, the City should issue RFPs more than once a year. By making funds available more than once a year, it is less likely that projects will be excluded because of timing problems.

Similar to the NOFA process, the City should establish threshold standards for proposals under an RFP process.

### **3. Developing Award Criteria**

Developing award criteria is based on the public policy goals of a specific use housing trust funds. For example, award criteria will be very different for a homebuyer assistance program and a multifamily acquisition/rehabilitation program. This section discusses award criteria for larger affordable housing development activities that the City should consider when designing its housing trust fund program.

#### **a. Proposed Program**

Award criteria should be developed based on the fundamental goals of the uses of housing trust funds. Eligible uses of funds, eligible borrowers, income targeting, and geographic targeting, all depend upon the goals of the City's program. Clearly, award criteria should encourage developers to assist the City with achieving its policy goals and priorities. For example, if the City is interested in affordable housing developments that provide services to residents, then award criteria should reward developers that provide services or have established relationships with service providers.

Depending upon the amount of funds available from the housing trust fund, developers will strive to fashion their developments to meet award criteria. The allocation process for low income housing tax credits in California is a good example. Because of the critical role played by low income housing tax credits in the financing of affordable housing development, developers will design their developments and assemble their development teams to maximize the number of points they score on their applications for tax credits. Therefore, TCAC carefully develops its award criteria based on the public policy goals they seek to achieve. Similarly, if the City offers substantial subsidies from a housing trust fund, developers will tend to design their developments to meet the City's award criteria because of the economic value of the City's subsidies. Conversely, if the City does not offer a significant amount of funds, the City's award criteria will have less influence on potential projects.

## **b. Sponsor, Development Team Capacity**

Some award criteria are important regardless of the public policy goals for the use of housing trust funds. Sponsor capacity and development team capacity is critical for all housing programs. The City should evaluate a sponsor's track record to gauge the developer's ability to complete a development in a timely and effective manner. Ideally, the project sponsor has completed similar developments on time and within budget, and that these developments are operating smoothly with sufficient cash flow to pay operating expenses, debt service (if any), and full funding of reserves. The City should also assess a developer's financial capacity to ensure that the developer has the ability to back financial guarantees requested by lenders and investors. In addition, because of potential community opposition issues with affordable housing development, the City should assess a developer's level of success in generating community support.

The capacity of the development team is also important to the long-term success of a development. Therefore, the track records and qualifications of the architect, general contractor, and property manager should be evaluated by the City and weigh heavily in the award criteria.

## **c. Leveraging of Housing Trust Funds**

Leveraging of housing trust funds is important because the City does not have sufficient financial resources to meet its affordable housing needs. The City must use its limited resources in the most effective and efficient manner. Therefore, one important award criterion is the degree to which a developer leverages housing trust funds with other sources of funds, such as equity from Federal and State Low Income Housing and Federal Historic Rehabilitation Tax Credits, State of California HCD funds, CalHFA funds, Federal Home Loan Bank Affordable Housing Program funds, HUD and other federal funds, and private financing.

Leveraging can be measured in two ways. One method is to calculate the City's subsidies as a percentage of total sources of development. An alternative method is to measure the per unit amount of City subsidies requested by developers. We recommend that the City measure leverage by evaluating the per unit amount of City subsidies. Using this method, the City maximizes the number of affordable housing units it funds.

An additional consideration is the City's current housing priorities. One of the City's primary goals is the acquisition and rehabilitation of multifamily units. In general, if rehabilitation does not require significant reconfiguration of units and relocation costs, then acquisition/rehabilitation is less costly than new construction. Therefore, assessing project proposals based on per unit amount of City subsidies may favor funding of acquisition/rehabilitation developments.

If, however, the City seeks a balance of new construction and acquisition/rehabilitation development, then it may not be appropriate to compare new construction developments to acquisition/rehabilitation developments if acquisition/ rehabilitation developments are significantly lower in cost than new construction. Otherwise, City funding will be skewed toward acquisition/rehabilitation. If the City seeks a balance of new construction and acquisition/rehabilitation developments, then it should compare new construction projects to new construction projects, and not to acquisition/rehabilitation developments.

An additional consideration is the relative lack of leverage financing available for rental households between 55 percent and 80 percent of area median income and ownership housing in general. Predominantly, sources of leverage financing for rental housing are targeted to households at 55 percent of area median income or lower. Therefore, if the City seeks to serve rental households above 55 percent of area median income, then it should be prepared to provide a higher per unit subsidy for these households than if the City targeted households at 55 percent of area median income or below. Although the affordability gap increases when the City targets very low income households, the availability of sources of leverage financing more than offsets the increase in the affordability gaps.

With ownership housing, there are few sources of leverage financing. The State (through HCD and CalHFA) offers some second mortgage assistance and downpayment assistance programs. However, these programs only offer anywhere between \$5,000 to \$30,000 per unit. The lack of significant sources of leverage for ownership housing means that the City should be prepared to provide higher per unit subsidies if it seeks to provide meaningful homeowner assistance, either through subsidies to developers or direct loans to homebuyers.

## **B. Form of Financial Assistance**

There are two fundamental forms of financial assistance a jurisdiction can provide for affordable housing: grants or loans. However, there are alternative structures for each form of financial assistance. The most appropriate form of financial assistance depends upon the uses of housing trust funds. **Table 2** provides a summary of forms of financial assistance for alternative uses of housing trust funds.

**Table 2**  
**Examples of Appropriate Forms of Financial Assistance**  
**Based on Uses of Funds**  
**City of Long Beach Housing Trust Fund Study**

<b>Use of Funds</b>	<b>Appropriate Forms of Financial Assistance</b>
Affordable Housing Development and Preservation (including Acquisition/Rehabilitation)	<ul style="list-style-type: none"> <li>• predevelopment grants or loans</li> <li>• construction/bridge loans</li> <li>• permanent loans (amortizing or residual receipts)</li> <li>• operating subsidies</li> </ul>
Supportive Housing	<ul style="list-style-type: none"> <li>• predevelopment grants or loans</li> <li>• construction/bridge loans</li> <li>• permanent grants or loans (amortizing or residual receipts)</li> <li>• operating subsidies</li> </ul>
Land Banking	<ul style="list-style-type: none"> <li>• ground lease</li> <li>• bridge loans</li> <li>• permanent grants or loans (amortizing or residual receipts)</li> </ul>
Sponsor Capacity Building	<ul style="list-style-type: none"> <li>• grants</li> <li>• fees from developments</li> </ul>
Rehabilitation/Code Enforcement	<ul style="list-style-type: none"> <li>• deferred payment loans</li> <li>• forgivable loans</li> <li>• amortizing loans</li> </ul>
Home Purchase Assistance	<ul style="list-style-type: none"> <li>• downpayment assistance loans or grants</li> <li>• second mortgage assistance loans</li> <li>• lease-to-own</li> </ul>

## **1. Affordable Housing Development and Preservation, and Supportive Housing Development**

The City can provide several forms of financial assistance depending upon the particular needs of a development. This section discusses appropriate forms of financial assistance for affordable housing development and supportive housing development. Forms of financial assistance for both affordable housing development and supportive housing development include:

- predevelopment grants or loans
- construction/bridge loans
- permanent loans, amortizing or residual receipts
- bridge loans
- operating subsidies

### **a. Predevelopment Grants or Loans**

Some jurisdictions provide grants or loans to nonprofit housing developers to provide them with capital to undertake predevelopment activities. Many nonprofit housing developers do not have sufficient resources to undertake costly feasibility studies, due diligence inspections, preliminary drawings, and other activities required to evaluate potential projects as well as apply for project financing. Cities typically provide these funds in the form of a forgivable loan, with the predevelopment grant converting to a loan if a project receives full funding. Typically, predevelopment loans are either repaid with construction financing or the predevelopment loan becomes a permanent loan.

Because of the nature of the use of the funds, these grants or loans are risky. In addition, the loans cannot be secured unless a project is completely funded, or unless funds are used to buy property. However, depending upon the financial capacity of nonprofit developers in the area and the City's interest in developing the infrastructure of nonprofit developers in the area, then predevelopment financing may be appropriate. Local jurisdictions typically provide less than \$20,000 to \$30,000 per development with predevelopment loans/grants. In contrast, predevelopment expenses can be several hundred thousands of dollars. However, jurisdictions are usually reluctant to provide higher amounts for unsecured, risky loans.

### **b. Construction/Bridge Financing**

Jurisdictions often provide construction and/or bridge financing for affordable housing development. In practice, construction loans usually convert to permanent loans after completion of construction. However, in some instances projects are able to fully or

partially repay construction loans (for example, through equity payments from investors in low income housing tax credits).

Construction financing from public agencies is often critical to the financial feasibility of an affordable housing development. Typically, affordable housing developers must use construction financing from public lenders to fully finance construction and reduce interest expense. Even if a tax credit equity investor is willing to provide a large capital payment during construction, affordable housing developments often cannot secure a large enough private construction loan to fully finance construction.

Private sources of financing typically require public lenders to take subordinate deeds of trust. In addition, most private sources of construction financing will not release funds until the public construction loan is fully expended.

### **c. Permanent Loans, Amortizing or Deferred Payment**

Permanent loans from jurisdictions are necessary to fully finance affordable housing developments in most cases. The Inclusionary Housing Study demonstrated that an affordability gap exists with each housing prototype analyzed, both renter and owner. Although the Inclusionary Housing Study affordability gap analysis concentrated on market rate housing prototypes, the same issues apply with affordable housing development.

To attain financial feasibility, permanent loans are typically deferred payment loans and cannot require debt service payments. In rare instances jurisdictions provide fully amortizing loans, but these loans are usually first mortgages that are provided because private financing cannot be secured. For example, in some cases the private market may not serve niche markets well, such as first mortgages on mobile home purchases where loan to value exceeds 100 percent. More typically, cities require repayment on a residual receipts basis. Using this structure, public loans are repaid as cash flow allows. Under these circumstances, it is critical that a jurisdiction carefully document the methodology for calculating residual receipts and monitor financial reports from projects.

### **d. Operating Subsidies**

Jurisdictions can provide operating subsidies for developments. Operating subsidies increase the operating income of a development, which in turn means that a developer can secure a larger first mortgage from a private lender.

We do not typically encourage jurisdictions to obligate themselves to long-term operating subsidy payments because of the uncertainty of a jurisdiction's future financial status. In fact, even with public housing authorities we do not recommend that they make guarantees of rent subsidies based on future allocations of Section 8 from Congress. Instead, a jurisdiction should provide a deferred payment loan that allows the developer to reduce the size of the



first mortgage. In some cases, jurisdictions could provide operating subsidies to reduce rents rather than increase the size of the first mortgage. With supportive housing developments, jurisdictions may also provide assistance to pay for expenses related to services. Local jurisdictions should not obligate themselves to long-term payments of operating subsidies, however. Instead, with supportive housing developments, state and federal sources of operating subsidies should be secured. In some cases, it may be possible to use “capitated” payments from Medicare and MediCal to pay for services. However, in California the use of capitated payments to pay for services is rare (we know of only two examples: On Lok in San Francisco and Center for Elders Independence in Oakland).

Alternatively, the City can “purchase” long-term rent restrictions from existing property owners. With this funding mechanism, the City would provide a one-time recoverable loan to a property owner in exchange for the property owner lowering rents for a defined period of time. If the property owner does not meet his obligations, then the loan is called by the City. In practice, purchasing long-term rent restrictions can be difficult to administer. The City must have a compliance monitoring system that is sufficiently effective to evaluate property owners’ compliance with the program. In addition, the City should monitor the physical condition of the properties to ensure that the owners are providing decent, safe, and affordable housing for residents.

## **2. Land Banking**

Land banking is usually conducted by a local jurisdiction. A jurisdiction purchases a property and then holds the property for future affordable housing development (or rehabilitation, in the case of an existing building). When a jurisdiction holds property for affordable housing development or rehabilitation, it can then use a competitive process for selecting the most appropriate development team and development program for a site.

In rare instances, local jurisdictions provide capital to a private entity to purchase a property prior to securing financing for a development. In these cases, a local jurisdiction takes the risk that the private developer will be able to secure sufficient financing to develop the project. The local jurisdiction should evaluate the proposed project’s ability to secure additional sources of subsidy and the developer’s capacity to successfully complete the development.

When a jurisdiction land banks, it is preferable to use a ground lease to provide property to a developer. The lease allows jurisdictions to attach long-term obligations on the property, such as affordability requirements, approval over transfers and assignments of title, approval of property managers, and reporting requirements. Even if a project is subject to foreclosure, if the ground lease is not subordinated to any financing, then the jurisdiction retains ownership of the land. Many private lenders, however, require subordination of ground leases to their financing. A ground lease also may provide for some revenues from ground lease payments, although it is more typical that ground lease payments are deferred and based on available cash flow.

If a jurisdiction chooses to provide financing to a private entity to land bank, the jurisdiction should provide the financing in the form of a loan. If the property is not generating revenues, as is the case with undeveloped land, the loan is typically a deferred payment loan. There may be the possibility of repayment of this loan when a developer secures project financing, but it is more likely that the acquisition loan will roll into permanent, deferred payment financing. If a developer acquires a building, then there may be some ability to provide debt service payments to the City.

The Long Beach Housing Development Company may be an appropriate entity to land bank. In its articles of incorporation, the Long Beach Housing Development Company is specifically empowered to “option, take options on, acquire, own, sell, transfer, use, lease exchange, dispose of” property and to “exercise all rights, powers, and privileges of ownership.” In this case, housing trust funds can be provided to the Long Beach Housing Development Company, which in turn would be responsible for identifying and acquiring properties for later development.

### **3. Sponsor Capacity**

Strengthening the infrastructure of nonprofit agencies in the area ultimately benefits Long Beach. As the City seeks to provide its residents with affordable housing opportunities that remain assets to the community over the long-term, it is important to have nonprofit partners with the ability to develop and manage quality affordable housing. Long Beach is best served by nonprofit partners that are financially stable with strong development, management, and resident service capacities.

With housing trust funds, the City has two methods for building the capacity of nonprofit organizations. First, the City can provide direct grants that can be used for a number of purposes, such as:

- payment of operating expenses
- improving development capacity, through the purchase of equipment and hiring of experienced staff
- developing strategic business and financial planning to achieve financial self-sufficiency
- improve delivery of social services to residents of affordable housing developments
- enhance the effectiveness of management oversight and maintenance of affordable housing developments by improving asset management capacity

With grants, the City has the ability to direct resources to identified areas of need. In addition, the City can require grant recipients to provide reports on the progress of their capacity building efforts. With multi-year grants, the City can make future payments contingent upon the progress of these efforts.

On a more indirect basis, the City can enhance sponsor capacity by allowing nonprofits to retain fees on their developments. Typical fees paid to developers include developer fees and partnership management fees. These fees are valuable to developers because of the unrestricted nature of these funds. The City can allow nonprofit developers to retain relatively higher developer fees and partnership management fees to increase their financial capacity, which in turn can enhance the overall capacity of these organizations. We have found that annual fees to developers should be structured as incentive-based residual cash fees. Allowing developers to share in residual cash from rental income provides them with incentive to operate developments in a cost-efficient manner.

#### **4. Rehabilitation and Code Enforcement**

Some cities have found that effective code enforcement not only encompasses the police powers of the jurisdiction but also the availability of funds to address code compliance problems. With code compliance grants or loans, the City's code enforcement activities become a "stick" to motivate a property owner to improve his/her property, and the City's financing is the "carrot" that rewards owners who improve their properties. Cities can provide grants, forgivable loans, or amortizing loans to those who have been cited or are in danger of being cited. The structure of the financing often depends upon the credit of the property owner and the owner's ability to support debt service payments.

Providing assistance through grants is problematic because there is no ability for a city to recover funds from a property owner. Instead, forgivable loans can be provided to property owners that do not have the ability support debt service payments. Loans can be repaid when the property is transferred or refinanced, or with rental properties when cash flow is sufficient to make payments. Amortizing loans are a good option with owners with poor credit but have the ability to make debt service payments.

#### **5. Home Purchase Assistance**

##### **a. Downpayment Assistance Loans or Grants**

One of the major impediments to the purchase of a home for many potential homebuyers is saving sufficient funds to pay for downpayment and closing costs. Many lenders, in conjunction with Fannie Mae and Freddie Mac, have been addressing this problem by lowering downpayment requirements to as low as three percent of the purchase price of the

home. These loans typically require a gift or subsidy in the amount of two percent of the purchase price for a total downpayment of five percent.

Many governmental agencies provide subsidies to meet the two percent requirement, with some agencies providing up to five percent for downpayments. This subsidy is usually in the form of a grant or a subordinate loan. Subordinate loans can be forgiven over time or repaid, depending upon the goals of the agency providing the loans. Most jurisdictions do not require amortization of these loans and seek repayment only if the property is sold within a certain period of time.

From our discussions with agencies administering these programs, the high housing prices have rendered most downpayment assistance programs ineffective unless accompanied with mortgage assistance programs. The high cost of housing in Long Beach means that there is a small supply of housing affordable for low and moderate income persons even with downpayment assistance.

It may be possible to combine a downpayment assistance program with a mortgage assistance program. Combined with a mortgage assistance program, discussed below, downpayment assistance programs can serve low and moderate income households.

Currently, the State, through the California Housing Finance Agency and the Housing and Community Development Department, offers downpayment assistance loans. Funding for these programs was authorized by Proposition 46. Therefore, at this time, funds for these uses are available from the State, which may imply that Long Beach can address other affordable housing priorities at this time.

#### **b. Second Mortgage Assistance Loans or Grants**

One common financing tool used to reduce mortgage payments for low and moderate income persons is a second mortgage that effectively reduces the amount of the private lender mortgage to an affordable level. These second mortgages are combined with the private lender first mortgage and downpayment to provide sufficient funds to purchase a home. To reduce mortgage payments, government agencies provide second mortgages that do not have debt service requirements. Because the second mortgage does not have debt service requirements, mortgage payments are reduced because the homebuyer is able to lower the amount of the first mortgage.

Mortgage assistance can be provided in several forms. Some agencies prefer to provide these funds as grants with no potential for recapture of these funds. Other agencies prefer to impose repayment requirements to re-lend the funds or to assure long-term residency. For example, some homebuyers with second mortgages are required to repay the loans when they sell the properties within a defined time frame. In other instances, obligations to repay second mortgages are reduced over time.

Mortgage assistance loans are provided directly to homebuyers. Alternatively, the City could provide financing to developers for site acquisition and development costs. The developers develop new construction homes and/or acquire and rehabilitate existing homes. The homes are then sold to targeted homebuyers. The homes are affordable to the homebuyers because of large second mortgages that bridge the gap between the development cost of the unit and the maximum affordable mortgage for the homebuyer. The City can choose to hold the second mortgages, or the City can have the developer hold the second mortgages. If the City holds the second mortgages, it will have greater control over the administration of the ownership housing program. However, staff time is needed to service the second mortgages, although this additional workload is not significant. If the City chooses to hold the second mortgages, the developers' role is limited to acting as a builder for the City.

If the developers administer the second mortgages, then any funding provided by the City must incorporate agreements that require the developers to impose long-term affordability restrictions. A funding agreement between the City and developer should incorporate as exhibits the second mortgage documents the developer must use with the homebuyers.

### **c. Lease to Own**

Ownership housing assistance can employ a lease-purchase component. Recognizing that even three percent downpayments exceed the financial capabilities of many persons, lease purchase programs have been established to assist homebuyers to build sufficient equity to purchase a home.

With a typical lease purchase program, a prospective homebuyer leases a home for a defined period of time. A portion of each lease payment is set-aside in a reserve that will be used as the prospective homebuyer's downpayment. When the lessee meets certain conditions over the period of the lease (such as making payments on a timely basis, maintaining the property, and/or completing a homebuyer counseling curriculum), then the reserve is used as their downpayment to purchase the home.

Lease purchase programs are an excellent method for expanding homeownership opportunities to persons who have little to no resources to save for a downpayment. The difficulty with lease purchase programs, however, is that these programs require jurisdictions to service lease payments, which may be difficult for agencies with limited staff capacity.

If the City seeks to establish a lease purchase program, we recommend that the City work with a nonprofit agency to administer the program and own the homes. The City's limited staff resources are protected. In addition, the nonprofit agency can provide housing counseling services, which should be available for program participants.

#### **d. Documenting Homeownership Assistance**

With homeownership assistance programs, it is important to use documentation that is easily understood by the homebuyer. We recommend use of the following documents:

- resale restriction or shared equity agreement;
- borrower disclosure statement; and,
- subordinate deed of trust.

##### **(1) Resale Restrictions and Shared Equity**

Cities typically use resale restrictions that require the resale price to be equal to the original amount of the first and second mortgage, plus the original value of the downpayment, increased by the percentage increase in area median income, plus the value (not cost) of any substantial structural or permanent fixed improvements installed by the homebuyer, approved by the City. A second mortgage is then provided to the new homebuyer. Using this methodology, the home price will be affordable to a low or moderate income homebuyer.

Alternatively, some cities do not use resale restrictions. However, the city is allowed to share in any increase in home price. By using a “shared equity” methodology, the original homebuyer is able to retain a portion of any equity generated by the home sale. The problem with shared equity programs is that inflation in housing costs in California typically outstrips inflation in household income. Therefore, over time, a shared equity program results in an erosion of buying power for the jurisdictions program.

##### **(2) Borrower Disclosure Statement and Subordinate Deed of Trust**

Because of the unconventional nature of home sales under a resale restriction agreement or a shared equity agreement, jurisdictions should develop borrower disclosure statements that clearly describe the conditions of home sales.

Mortgage assistance should be secured by a subordinate deed of trust.

#### **e. Other City Requirements: Occupancy Requirements**

Some jurisdictions impose occupancy requirements with their home purchase assistance, requiring homebuyers to occupy their home for minimum number of months of the year. Cities adopt this policy for three reasons. First, the intended purpose of home purchase assistance is to allow the homebuyer to purchase and reside in a home. Allowing the

homebuyer to live at another residence defeats the intended purpose of the financial assistance. Second, homebuyers cannot experience financial windfalls by servicing affordable mortgages but renting the homes at market prices. Third, occupancy requirements avoid any potential issues with absentee-owned property.

Imposing occupancy requirements can dampen demand for financial assistance from the City. Ultimately, demand will depend upon the amount of financial assistance provided by the City. For a small downpayment assistance loan, homebuyers probably will not choose to subject themselves to occupancy requirements. With larger mortgage assistance loans, homebuyers may be willing to be subject to occupancy requirements (as well as shared equity or resale restrictions).

## **C. Underwriting and Deal Structuring**

### **1. Multifamily Underwriting**

All lenders underwrite loans to manage risk. Because the City is typically in a subordinate position, managing risk is a significant challenge. In addition, City staff are charged with preserving the safety of the City's funds while maintaining its role as the primary catalyst for affordable housing production.

In general, the three most important categories of factors when underwriting loans are:

- the experience of the underwriter
- the quality of underwriting standards applied by the underwriter; and,
- the quality and extent of information available to the underwriter.

To some extent, the experience of the underwriter can overcome deficiencies in the quality of underwriting standards established by the City. However, simply relying on the experience of underwriters rather than establishing clear underwriting standards also means that there is room for differences in underwriting projects. Therefore, we strongly recommend that the City review its underwriting standards and improve the clarity of these standards, if necessary. In addition, it is important to understand that underwriting standards are interrelated. For example, a vacancy allowance factor will affect the amount of cash flow, which in turn affects debt coverage, and, to some extent, loan to value. For this reason, an experienced underwriter is critical to making the appropriate judgments regarding applying underwriting standards and ultimately funding approval.

This section discusses issues regarding important underwriting criteria for the City's consideration.

**a. Rental Income, Sales Prices**

Rents and/or sales prices should be a function of two factors. First, the market should support rents or sales prices. Ideally, proposed rents or sales prices should be below market to ensure demand for the housing. Developers should provide market studies to the City with evidence that the rents or sales prices can be supported. For smaller projects, market studies may not be financially feasible. In these cases, rent surveys smaller in scope than market studies can be used. Second, rents and sales prices must be established according to the requirements of funding sources, such as the City, HCD, or the Low Income Housing Tax Credit program.

With many mixed-use developments, commercial income should not be considered when underwriting the project's cash flow. Most lenders use this same protocol. In some cases, lenders and other funders may require a different entity to own commercial improvements. A developer may be required to create condominiums with the commercial improvements, the residential improvements, and sometimes the land, as separate parcels and tied together with a conditions, covenants, and restrictions agreement.

**b. Loan to Value Ratio**

Some loans originated by public agencies result in overall loan to value ratios in excess of 100 percent. Because of the difficulty with appraising affordable housing developments, this practice is used by many sources of public funds.

We believe that the practice of providing loans in excess of 100 percent loan to value is, in many cases, necessary to render the development of affordable housing financially feasible. In these cases, it is important to mitigate the risks inherent with providing loans in excess of 100 percent loan to value, such as working with developers with strong track records or increasing debt coverage requirements to 1.10 or above.

**c. Debt Coverage Ratio**

We recommend applying a range of debt coverage ratio requirements, depending upon the City's goals and the type of development. For example, if the City seeks to maximize leverage of its financing, then underwriting loans down to a 1.10 to 1.00 debt coverage ratio may be appropriate, depending upon restrictions imposed by other funding sources. Private lenders typically use higher debt coverage ratios (from 1.15 to higher amounts). However, many public lenders support the use of lower debt coverage ratios to maximize the amount of supportable debt to leverage public funds.

Higher debt coverage ratios are warranted in some cases. First, if the City provides a loan that results in a total debt to value ratio in excess of 100 percent, a debt coverage ratio of 1.15 or higher is warranted to reduce risk. Second, if the City is working with a nonprofit



developer with limited financial capacity, a higher debt coverage ratio is warranted to allow the project to "stand alone" and not rely on the financial backing of the developer. In addition, a higher debt coverage such as 1.15 to 1.00 can result in increasing cash flow to the developer to assist with its financial capacity. Third, some project types, such as residential hotels, may have a higher risk profile than other types of projects, which may warrant use of higher debt coverage ratios. For example, with residential hotels, a debt coverage ratio of 1.25 to 1.00 is not necessarily excessive, depending upon the vacancy rate assumptions. Mobilehome parks may require debt coverage ratios of 1.40 to 1.0 or greater. Fourth, smaller projects may require higher debt coverage ratios because there can be greater variations in cash flow than in larger projects.

#### **d. Operating Expenses**

Operating expenses depends upon bedroom size, type of project, and location. For example, a development with predominantly three bedroom units will usually have higher per unit operating expenses than a development with one and two bedroom units. In addition, senior developments will usually have lower operating expenses than multifamily developments, which in turn have lower operating expenses than residential hotels. Objective standards for operating expenses should be shared among City staff to ensure that projects are underwritten consistently and that all staff have access to the most recent information on operating costs. Ideally, the City would conduct operating expense studies on a regular basis. One problem with operating cost studies is the need to continually update the information. In addition, operating cost line items for projects can vary significantly because of differing project configurations and needs. Therefore, operating cost studies would need to provide reasonable ranges for line items.

When underwriting operating expenses, the City should review long term cash flows and understand a project's ability to meet obligated debt service payments, reserve fundings, and other financial obligations (e.g. deferred developer fee payments, partnership management fees, residual receipts payments to subordinate lenders).

#### **e. Inflation Factors, Pro Formas**

With long-term pro formas, revenue is usually inflated at 2.5 to 3.0 percent annually, and expenses are inflated at one percent higher than revenues. This is standard practice among affordable housing underwriters, because it is important to inflate expenses at a rate higher than income to better protect the project against uncertain cost increases and revenue streams.

#### **f. Vacancy Rates**

Vacancy rates are usually determined on a case-by-case basis, depending on rents, marketability, size of the project, and other factors related to risk. Usually, affordable housing developments have low vacancy rates because the below market cost of housing generates demand for the housing. However, in some cases, such as residential hotels, affordability of rents does not necessarily translate to stable occupancy rates. Therefore, the City should view vacancy rates based on the market demand for the units.

#### **g. Replacement Reserves**

Generally, replacement reserves should be based on an analysis of replacements needed over time. Usually, however, funders' requirements are used to calculate replacement reserves. We recommend that the City use a set methodology for determining the size of capitalized replacement reserves and ongoing deposits to replacement reserves. This methodology is based on the timing of necessary replacements and the amount of funds that need to be set aside to pay for these replacements.

#### **h. Sponsor Capacity**

As we discuss above, sponsor and development team capacity are critical to the success of a housing development. The sponsor and development must be able to demonstrate that they have the ability to complete a project in a timely and effective manner. The sponsor's portfolio, track record, and the experience of staff and board are all indicators of sponsor development capacity.

In addition, the City should assess a developer's financial capacity to ensure that the developer has the ability to back financial guarantees. Financial capacity can be determined through an examination of the sponsor's net worth (both restricted and unrestricted), cash flow, liquidity, and contingent liabilities.

If sponsors do not have sufficient capacity, the City should encourage project sponsors to joint venture. Some developers with a great deal of development and management experience can joint venture with less sophisticated project sponsors to increase their capacity. The amount of capacity building, however, is constrained by the quality of the joint venture agreement and the personalities of the parties. We have seen joint ventures where joint venture agreements favor – from both a compensation and ownership perspective – the senior partner to such a degree that the junior partner does not benefit from the joint venture.

## **2. Multifamily Deal Structuring**

This section discusses key deal structure points for the City's consideration.

### **a. Form of Financial Assistance and Repayment Terms**

As we discuss earlier, it is appropriate for jurisdictions provide grants or loans to nonprofit housing developers to provide them with capital to undertake predevelopment activities, construction or bridge financing, and permanent financing. With predevelopment loans, the City should provide these funds in the form of a forgivable loan, with the predevelopment grant converting to a loan if a project receives full funding.

With construction/bridge financing, the City should provide a loan repayable from permanent sources, if available. Typically, a local agency's construction loan becomes a deferred payment permanent loan. However, in some situations where a project is able to fully or partially repay construction loans, then the City should seek repayment.

Because of the large affordability gaps identified in the Inclusionary Housing Study, permanent gap financing is typically necessary from the City to fully finance affordable housing developments. To achieve financial feasibility, the City's financing is usually in the form of a deferred payment loan because affordable developments do not generate sufficient cash flow to amortize the City's loans.

We usually recommend that the City employ a residual receipts structure with its deferred payment loans. A residual receipts note means that the City is paid from available cash flow after payment of operating expenses, funding of reserves, debt service payments, and fees to the developer, if approved by the City.

### **b. Maximizing Leverage of Housing Trust Funds**

As we discuss earlier, maximizing leverage of housing trust funds is critical because of the great need for affordable housing in Long Beach. One aspect of leveraging housing trust funds is assuring that the City's funds are used as gap financing only, with all other potential sources of funds investigated and, ideally, secured by the developer. To ensure that the City's funds are only used as gap financing, the following steps should be taken:

- verify total development costs;
- verify attainable rents/prices and operating costs;
- define supportable debt (from private lenders); and,
- identify other sources of public subsidy, including tax credits, to leverage the City's funds.

### **(1) Verify Total Development Cost**

The City should verify hard costs, soft costs, the need and appropriate amounts for capitalized reserves, and appropriate developer fees. To verify hard and soft costs, the City should review comparable projects by the developer, comparable projects by other developers, and published sources. Other cost assumptions should be reviewed including permits and fees, contingencies, loan fees, real estate taxes, development fees, legal and consulting fees, start-up costs, and lease up.

### **(2) Verify Attainable Rents/Prices and Operating Costs**

Defining net operating income is a matter of validating rents (from both marketability as well as regulatory perspectives), verifying appropriate operating costs, and verifying appropriate funding levels for reserves. With homeownership developments, the City should review and validate assumptions for prices secured for the homes. The City should review developer pro formas for reasonableness and accuracy, as well as the appropriateness of income assumptions including affordable rents and home prices under proposed affordability restrictions, market rents and home prices given local economic conditions, escalation rates and vacancy allowances. The City should also evaluate the sufficiency of ongoing costs for operations, utilities and maintenance, debt service reserves, operating reserves, and cost escalation assumptions.

### **(3) Define Supportable Debt**

For rental developments, calculating supportable debt is a matter of defining net operating income and securing appropriate terms for the debt, such as debt coverage ratio, interest rate, and term. It is important to understand the terms of the debt to ensure that a developer is getting the most competitive terms to maximize the size of the private debt while maintaining a debt coverage ratio that ensures sufficient cash flow to support the long-term viability of the project. For ownership developments, calculating supportable debt is a matter of defining the qualifying income of home purchasers and assumptions for appropriate terms for the debt.

The City should require developers to use a bid process to identify the most competitive terms and conditions available. A request for proposals (RFP) or similar document can be distributed to lenders with a strong track record. With a bid process, comparing the terms and conditions offered by lenders is a simple process. Final terms and conditions can be negotiated with the lender offering the most attractive terms and conditions.

#### **(4) Identifying Other Sources of Public Subsidy**

The City should require developers to seek leverage sources of financing, such as non-local sources like low Income Housing Tax Credits, State of California Housing and Community Development, U.S. Department of Housing and Urban Development, and the Affordable Housing Program of the Federal Home Loan Bank.

Most importantly, the City should analyze the proposed equity payments from tax credit investors to ensure that the developer is maximizing pricing of tax credits to further leverage City funds. Similar to private debt, we recommend using a bid process to identify the most appropriate equity investor.

##### **c. Allowable Developer Fees**

Defining allowable developer fees and other forms of developer compensation (e.g. partnership management fees, asset management fees, guarantee fees, organizational/administration reimbursement, construction management fees, etc.) is an important component of structuring a deal with a developer. If the City seeks to boost the capacity of local developers, then it should allow developers to take higher development fees and other forms of compensation. Typically, other sources of financing such as the Low Income Housing Tax Credit program impose their restrictions on developer fees and other forms of developer compensation. The City can allow developers to take allowable fees in cases where it seeks to boost developer capacity. This strategy, however, reduces the City's leverage and increases the City's per unit subsidies.

### **3. Single Family Deal Structuring and Processes**

#### **a. Single Family Debt Structure**

As we discuss earlier, the City's assistance should be in the form of deferred payment, subordinate financing. Typically, cities do not charge market interest rates on their loans to avoid placing onerous debt obligations on homebuyers. In fact, many cities allow forgiveness of loans if the loans are held for a long period of time, such as 15 to 30 years.

In addition, we recommend that the city employ resale restrictions to control resale prices. As we discuss earlier, cities generally use resale restrictions that require the resale price to be equal to the original amount of the first and second mortgage, plus the original value of the downpayment, increased by the percentage increase in area median income, plus the value (not cost) of any substantial structural or permanent fixed improvements installed by the homebuyer. Again, as we discuss earlier, some cities do not use resale restrictions and instead employ a shared equity approach where the city shares in any increase in home value, with the city's share decreasing over time.

## **b. Single Family Origination Processes**

We cannot overemphasize the need for a city to use a streamlined process for originating loans. In housing markets where sellers receive multiple bids, participants in homebuyer assistance programs are at a disadvantage if a city is slow to approve its loan.

To address this issue, we typically recommend that a city use a credit pre-approval process. Much like private lenders, the City should pre-approve the credit of borrowers. In addition, to further streamline approval processes, the City should delegate its loan approvals to the private lenders providing the first mortgages. Clearly, delegating loan approvals should only occur with lenders with a strong relationship with the City. Even in these cases, the City must monitor the lender's actions to ensure that it is implementing the City's program correctly. Monitoring over time is important because private lenders' personnel change often, especially with loan underwriters.

## **D. Asset Management**

Real estate lending and associated asset management is a process and system of managing risk. The quality of risk management is a direct function of the quality of the lender's loan policies, loan approval processes and loan asset management system. Local agencies are a significant source of public sector financing for affordable housing. The purpose of these loans is to achieve the public policy objectives of affordable housing production, preservation and neighborhood stabilization. However, each time a city makes a loan, it maintains the same goal as any private real estate lender: the city does not want to lose its investment. Poor asset management results in wasted public funds, loss of subsidized units, and eviction of low income tenants.

The process of real estate risk management is divided into two parts:

- approving loans; and,
- managing the asset once a loan has been funded.

The quality of a city's risk management is reflected in the quality of its loan policies, the clarity of its approval processes, and how well its public policy objectives are achieved, while properly managing risk through the loan origination process. Once a loan is funded, risk management shifts away from the underwriting and due diligence process and becomes a process of information gathering, monitoring, and undertaking appropriate strategies for addressing problems, if necessary. The quality of information and the capacity of city staff to provide management with timely, accurate and complete information determine the ability of these agencies to manage the risks inherent in their portfolios.

When developing its asset management systems, the City should establish processes, practices and procedures that will:

- guard against loss of funds through defaults, loss of affordable housing units, and resident evictions;
- ensure that the City's regulatory requirements are met (e.g. affordability of units, occupancy of units) as well as other important requirements (e.g. insurance premiums and property taxes are current, reserves are fully funded);
- ensure that the City's approval rights are in place;
- track repayment obligations to the City;
- provide important feedback to underwriting staff regarding the performance of development team members and identify any problem areas; and,
- provide underwriting staff with feedback on the underwriting standards they use to evaluate projects and identify any problem areas.

### **1. Loan Approval**

We discuss at length the importance of underwriting and due diligence in the loan approval process. Also important in the loan approval process is the need to properly document loans to developers. Legal documents should address all issues of importance to the City, such as:

- rent/sale restrictions, income restrictions
- reporting requirements – income certifications, financial reports
- repayment terms and conditions
- City approvals – transfers and assigns, draws on reserves, operating budget, changes in property management, management plans
- insurance coverage
- occupancy requirements
- use of hazardous materials
- nondiscrimination and affirmative marketing
- maintenance standards
- additional encumbrances

Ideally, these requirements are incorporated in documents that remain in place even with foreclosures by lenders with superior deeds of trust. In some cases, lenders will allow cities to not subordinate their ground leases or regulatory agreements to their deeds of trust.

## **2. Loan Monitoring**

### **a. Single Family Loans**

Loan monitoring is different for single family loans than it is for multifamily loans. With single family loans, monitoring of loans is a combination of traditional loan servicing and compliance monitoring.

With single family loans, depending upon the structure of the loans, the City may have to track payments from owners, delinquencies, and late fees. The City may also want to monitor payment of property taxes and insurance premiums, or it can require that the first mortgage lender establish impound accounts for these expenses. This loan monitoring function is similar to traditional loan servicing.

If the City imposes resale restrictions or shared equity requirements, then the City must monitor compliance with the sale of the properties. The City must make sure that the resale restrictions or shared equity requirements are met, and that new purchasers meet income restrictions. In addition, the City must ensure that the new purchasers are aware of all program requirements.

### **b. Multifamily Loans**

With multifamily properties, loan monitoring involves review of financial reports, rent rolls and occupancy reports (for ownership developments), physical inspections, and inspection of tenant files. Compliance monitoring is often difficult because the City must devote additional personnel and systems resources to adequately monitor compliance with loan document requirements. If this is not possible, the City should consider outsourcing some of its current functions to free up personnel and systems resources for project monitoring.

In addition, it is often the case that project sponsors do not have capacity to provide adequate reports to cities. In these cases, cities can expend a great deal of resources securing adequate reports from developers. Enhancing the capacity of the nonprofit developer community is critical to successful affordable housing development and management. As we discuss earlier, the City can help build the financial capacity of nonprofit developers, which indirectly addresses this issue.

Some cities establish a compliance monitoring system that includes software developed specifically for the purpose of managing real estate portfolios. If the City seeks to secure software, the software should incorporate specifications such as:



- borrower name, address
- loan type
- property type
- loan program
- property address
- priority of loan
- other lenders/investors: name, address, loan/investment amount, priority, term, interest, payment history, notes (e.g. cross-default provisions)
- interest calculations
- original loan amount
- current principal
- total number of payments
- late fees paid/unpaid
- maturity date
- remaining payments
- insurance expiration date
- funding date
- interest paid to date
- next payment date
- taxes paid
- property management agent
- payment history
- delinquency report (30, 60, 90 days late), current period as well as historic tickler file
- insurance payments
- property tax payments
- income and occupancy certifications
- debt service payments (all loans)
- approved operating budget
- on-site inspection notes
- portfolio forecast - interest, principal paid on all loans in City's portfolio;
- amortization schedule, if applicable
- summary loan "flag" report (i.e. reports on "flags" detected, such as late payments)
- status of reserves

### 3. Protocols, Actions

With the establishment of a compliance monitoring system, the City should establish protocols to address any issues uncovered through compliance monitoring. **Table 3** provides a list of potential asset management problems, indicators of the problems, possible actions the City can take, and preventive measures to avoid these problems.

TABLE 3

## CITY OF LONG BEACH

## Potential Project Problems, Indicators, Actions, and Preventive Measures to Address Potential Problems

## I. Development Phase

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Construction Schedule	Construction delays due to fault of project sponsor or general contractor	Construction delays	<ul style="list-style-type: none"> <li>Identify new construction superintendent</li> <li>Identify new contractor</li> <li>Identify construction manager for developer</li> <li>Identify new construction administration architect</li> </ul>	<ul style="list-style-type: none"> <li>Liquidated damages in construction contract</li> <li>Incentives for on-schedule completion in construction contract</li> <li>Identify appropriate construction manager for developer</li> <li>Identify appropriate architect</li> </ul>
Construction Cost	Cost overruns	<ul style="list-style-type: none"> <li>Change orders</li> <li>Construction delays</li> <li>Over budget with initial draws</li> </ul>	<ul style="list-style-type: none"> <li>Identify new construction superintendent</li> <li>Identify new contractor</li> <li>Identify construction manager for developer</li> <li>Identify new construction administration architect</li> </ul>	<ul style="list-style-type: none"> <li>Identify appropriate construction manager for developer</li> <li>Identify appropriate architect</li> <li>Use contractor to review construction budget, e.g. value engineering</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Payment to Subcontractors	Delays in payment; mechanics liens on property	Subcontractors complaining of delays in payment	<ul style="list-style-type: none"> <li>Review payment records of general contractor</li> <li>Withhold subsequent payments to general contractor</li> <li>Identify new contractor</li> <li>Identify new construction manager for developer</li> </ul>	<ul style="list-style-type: none"> <li>Fund control firm</li> <li>Review administrative capacity of general contractor and track record</li> </ul>
Leasing	Leasing delays; lack of market demand	Leasing delays	<ul style="list-style-type: none"> <li>Revise marketing strategy</li> <li>Lower rents</li> <li>Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>Market study</li> <li>Identify appropriate property manager</li> </ul>
Tax Credit Compliance	Delays in: <ul style="list-style-type: none"> <li>obtaining 8609</li> <li>placed in service date(s), by building</li> <li>meeting 10 percent test</li> <li>recording TCAC regulatory agreement</li> </ul>	Delays in: <ul style="list-style-type: none"> <li>obtaining 8609</li> <li>placed in service date(s), by building</li> <li>meeting 10 percent test</li> <li>recording TCAC regulatory agreement</li> </ul>	<ul style="list-style-type: none"> <li>Identify financial consultant familiar with tax credit compliance</li> <li>Identify accounting firm familiar with tax credit compliance</li> <li>Identify legal firm familiar with tax credit compliance</li> </ul>	<ul style="list-style-type: none"> <li>Identify financial consultant familiar with tax credit compliance</li> <li>Identify accounting firm familiar with tax credit compliance</li> <li>Identify legal firm familiar with tax credit compliance</li> <li>Identify general contractor with strong administrative skills</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Use of Funds	Funds used for purposes not approved/allowed by funding sources	<ul style="list-style-type: none"> <li>Funders' construction monitors identify misuse of funds</li> <li>Developer's sources and uses of funds do not match with plans</li> </ul>	<ul style="list-style-type: none"> <li>Require developer to identify alternative sources of funds for these items</li> <li>Identify new developer</li> </ul>	<ul style="list-style-type: none"> <li>Review plans in conjunction with sources and uses of funds, including construction budget</li> <li>Fund control</li> <li>Identify appropriate construction monitor</li> <li>Notice and cure rights in other funders' loan documents</li> <li>Cross default provisions</li> </ul>
Litigation	Litigation in any form		<ul style="list-style-type: none"> <li>Identify new general contractor, developer, financial, legal, and development consultants, architect, or property manager, as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Identify construction, development and management team with strong track records</li> </ul>

## II. Funding Source Requirements

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Income/Rent/Unit Mix Compliance	Noncompliance with tenant income levels, unit mix, and rent levels required by funding sources	<ul style="list-style-type: none"> <li>Plans do not match with required unit mix</li> <li>Inexperienced property manager</li> <li>Leasing delays</li> </ul>	<ul style="list-style-type: none"> <li>Require compliance with tenant income levels, unit mix, and rent levels; if not, loan workout</li> <li>Meet with other funders to discuss potential loan workout</li> <li>Replace property manager</li> <li>Replace developer</li> <li>Review need for changes to original requirements; potential need to change original requirements; meet with other funders to discuss potential need to change original requirements</li> </ul>	<ul style="list-style-type: none"> <li>Review construction plans</li> <li>Market study</li> <li>Identify property manager, developer with strong track record</li> <li>Notice and cure rights in other funders' loan documents</li> <li>Cross default provisions</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>Expiration of policy</li> <li>Late insurance payments</li> <li>Inadequate insurance: rating of carrier; amount of insurance; type of insurance</li> <li>Proceeds of claim used incorrectly</li> </ul>	<ul style="list-style-type: none"> <li>Notice of cancellation from insurer</li> <li>Developer or property manager has poor administrative capacity</li> </ul>	<ul style="list-style-type: none"> <li>Require developer to make payment to insurer</li> <li>Identify new property manager</li> <li>Identify accounting firm to assist developer</li> <li>Require developer to appropriately use proceeds from claim</li> </ul>	<ul style="list-style-type: none"> <li>Review insurance policy/certificate</li> <li>Review plans for use of insurance claim proceeds</li> <li>Funder should be identified as an additional insured</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Ownership/Title	<ul style="list-style-type: none"> <li>Assign or convey the property without permission</li> <li>Title defect</li> </ul>		<ul style="list-style-type: none"> <li>Identify new developer; loan workout</li> <li>Meet with other funders to discuss loan workout</li> <li>Title insurance claim</li> </ul>	<ul style="list-style-type: none"> <li>Review title insurance policy for accuracy and amount of insurance</li> </ul>
Reporting	Required financial and regulatory reports on projects and project sponsors not provided or inadequate	<ul style="list-style-type: none"> <li>Required financial and regulatory reports on projects and project sponsors not provided or inadequate</li> <li>Developer/asset manager or property manager inexperienced or poor administrative capacity</li> </ul>	<ul style="list-style-type: none"> <li>Identify legal, accounting, financial consultants to assist developer or property manager</li> <li>Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>Identify legal, accounting, financial consultants to assist developer or property manager</li> <li>Identify property manager with strong track record</li> <li>Provide/fund training for developers</li> <li>Notice and cure rights in other funders' loan documents</li> <li>Cross default provisions in loan documents</li> </ul>
Fair Housing and Affirmative Marketing	Noncompliance	<ul style="list-style-type: none"> <li>Applicant complaints regarding marketing</li> <li>Tenant population does not reflect anticipated population mix</li> <li>Leasing delays</li> </ul>	<ul style="list-style-type: none"> <li>Remedy complaint, if warranted</li> <li>Identify new property manager</li> <li>Identify new developer</li> </ul>	<ul style="list-style-type: none"> <li>Review marketing plan</li> <li>Identify experienced property manager</li> <li>Require grievance procedure for complaints</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Loan Payments	Delay/lack of payments on amortizing, interest-payment only, and residual receipt loans; lack of ability to determine amount/need for payment (residual receipts)	<ul style="list-style-type: none"> <li>• Inadequate developer reporting capacity</li> <li>• Property manager has poor administrative capacity</li> <li>• Contact from other funders</li> <li>• Contentious relationship between developer and funder</li> </ul>	<ul style="list-style-type: none"> <li>• Identify new property manager</li> <li>• Identify appropriate consultants to assist developer or property manager</li> <li>• Identify new developer</li> </ul>	<ul style="list-style-type: none"> <li>• Notice and cure rights in other funders' loan documents</li> <li>• Develop relationships with funders for early notification of payment problems</li> <li>• Fund debt service reserve</li> <li>• Cross default provisions</li> </ul>
Use of Project	Project uses not in compliance with funding source requirements	Project uses not in compliance with funding source requirements	<ul style="list-style-type: none"> <li>• Require compliance with project use requirements; loan workout</li> <li>• Require identifying alternative sources of funds for funding uses of property</li> <li>• Identify new developer</li> </ul>	<ul style="list-style-type: none"> <li>• Review plans</li> <li>• Incorporate uses of property in regulatory agreement</li> <li>• Cross default provisions</li> <li>• Notice and cure rights in other funders' loan documents</li> </ul>
Approvals	Noncompliance with funding source approvals, e.g. tenant leases, operating budgets, draws on reserves, marketing plans, management plans	Noncompliance with funding source approvals, e.g. tenant leases, operating budgets, draws on reserves, marketing plans, management plans	<ul style="list-style-type: none"> <li>• Require compliance</li> <li>• Identify new property manager, developer, as appropriate</li> <li>• Require reimbursements from developer or property manager, as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Incorporate approval requirements in regulatory agreement</li> <li>• Project monitoring</li> <li>• Cross default provisions</li> <li>• Notice and cure rights in other funders' loan documents</li> </ul>

### III. Property Management

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Rent Payments	High amount of delinquencies, workout plans, bad debt write-offs	High amount of delinquencies, workout plans, bad debt write-offs	<ul style="list-style-type: none"> <li>Review tenant screening process; alter process, if necessary</li> <li>Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>Review tenant screening process</li> <li>Identify property manager with strong track record</li> <li>Use month to month leases (after using minimum long-term initial lease required by funders, e.g. tax credits)</li> <li>Monitor project financial reports</li> <li>Operating reserve</li> </ul>
Vacancies	Unanticipated higher level of vacancies	<ul style="list-style-type: none"> <li>Lease up delays</li> <li>High turnover rates</li> <li>Problems with rent payments (see above)</li> </ul>	<ul style="list-style-type: none"> <li>Alter marketing plan</li> <li>Review tenant screening process</li> <li>Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>Market study</li> <li>Review tenant screening process</li> <li>Operating reserve</li> </ul>
Evictions	Unanticipated higher level of evictions	<ul style="list-style-type: none"> <li>High turnover rates</li> <li>High level of workout plans</li> <li>High level of late payments</li> </ul>	<ul style="list-style-type: none"> <li>Review tenant screening process</li> <li>Review eviction process</li> <li>Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>Review tenant screening process</li> <li>Operating reserve</li> </ul>



Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Cash Flow	Unanticipated negative cash flow; unanticipated lower debt service coverage ratio	<ul style="list-style-type: none"> <li>• High turnover rates and costs</li> <li>• High level of workout plans</li> <li>• High level of late payments</li> <li>• Lease up delays</li> <li>• High level of vacancies, evictions, bad debt write-offs</li> <li>• Higher than anticipated operating costs</li> </ul>	<ul style="list-style-type: none"> <li>• Review tenant screening process</li> <li>• Review marketing plan</li> <li>• Identify/address need for reducing mortgage payments, additional equity</li> <li>• Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>• Market study</li> <li>• Operating reserve</li> <li>• Proper underwriting of project operating assumptions</li> <li>• Identify experienced property manager</li> </ul>
Operating Costs: <ul style="list-style-type: none"> <li>• Taxes</li> <li>• Insurance</li> <li>• Mortgage</li> </ul>	<ul style="list-style-type: none"> <li>• Unpaid/delinquent payroll, property, income taxes</li> <li>• Lapse insurance payments</li> <li>• Mortgage payment delinquency</li> </ul>	<ul style="list-style-type: none"> <li>• Notice from insurer or funder regarding late payments</li> <li>• Poor administrative capacity of developer or property manager</li> </ul>	<ul style="list-style-type: none"> <li>• Require payments; loan workout, if necessary</li> <li>• Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>• Notice and cure rights with other funders' loan documents</li> <li>• Cross default provisions</li> <li>• Identify experienced property manager</li> <li>• Operating reserve</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Additional Debt	Unauthorized additional debt	<ul style="list-style-type: none"> <li>• Project cost overruns</li> <li>• Cash flow deficits</li> <li>• Unanticipated draws on operating or replacement reserves</li> <li>• Poor condition of property</li> <li>• Poor construction quality</li> </ul>	<ul style="list-style-type: none"> <li>• Identify alternative funding sources, if necessary</li> <li>• Identify new developer</li> </ul>	<ul style="list-style-type: none"> <li>• Construction cost control</li> <li>• Proper underwriting of project operating costs and revenues</li> <li>• Market study</li> <li>• Identify experienced property manager</li> <li>• Monitor physical condition of property</li> <li>• Review quality of construction specifications</li> <li>• Notice and cure rights in other funders' loan documents</li> <li>• Cross default provisions</li> </ul>
Reserves	Unanticipated draws on either operating or replacement reserves	<ul style="list-style-type: none"> <li>• Cash flow deficits</li> <li>• Poor condition of property</li> <li>• Poor construction quality/inadequate scope of construction work (for rehabilitation projects)</li> </ul>	<ul style="list-style-type: none"> <li>• Same actions under "Cash Flow" (see above)</li> <li>• Review project with general contractor and developer for potential construction defects/need for additional scope of work</li> <li>• Identify additional funding sources</li> </ul>	<ul style="list-style-type: none"> <li>• Proper underwriting of project operating costs and revenues</li> <li>• Market study</li> <li>• Identify experienced property manager</li> <li>• Monitor physical condition of property</li> <li>• Review quality of construction specifications</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Marketing/Demand for Units	<ul style="list-style-type: none"> <li>• Lack of waiting list</li> <li>• Long vacancy terms</li> <li>• High unit turnover</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of waiting list</li> <li>• Long vacancy terms</li> <li>• High unit turnover</li> </ul>	<ul style="list-style-type: none"> <li>• Alter marketing plan</li> <li>• Review tenant screening process</li> <li>• Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>• Market study</li> <li>• Review tenant screening process</li> <li>• Operating reserve</li> </ul>
Physical Condition	<ul style="list-style-type: none"> <li>• Lack of maintenance/management plan</li> <li>• Unscheduled draws on replacement reserves</li> <li>• Infrequent/lack of inspections by asset manager</li> <li>• Poor condition of property/need to improve systems</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of maintenance/management plan</li> <li>• Unscheduled draws on replacement reserves</li> <li>• Infrequent/lack of inspections by asset manager</li> <li>• Poor condition of property/need to improve systems/inadequate scope of work (for rehabilitation projects)</li> <li>• Poor construction quality</li> </ul>	<ul style="list-style-type: none"> <li>• Review project with general contractor and developer for potential construction defects/need for additional scope of work</li> <li>• Identify additional funding sources for capital improvements</li> <li>• Refinance/reduce debt service or other cash flow obligations, without compromising project operations, to direct more resources to property maintenance</li> <li>• Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>• Review maintenance/management plan</li> <li>• Review construction specifications/scope of construction to determine adequacy of work</li> <li>• Replacement reserves</li> <li>• Identify general contractor or property manager, as appropriate, with strong track record</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Tenant Files	Tenant files do not provide adequate documentation for funding sources	<ul style="list-style-type: none"> <li>Inexperienced property manager</li> <li>Property manager has poor administrative skills</li> </ul>	<ul style="list-style-type: none"> <li>Review all tenant files for compliance if problem is identified</li> <li>Identify consultant to assist with compliance documentation</li> <li>Identify new property manager</li> </ul>	<ul style="list-style-type: none"> <li>Retain property manager with strong track record</li> <li>Notice and cure rights in other funders' loan documents</li> <li>Cross default provisions</li> </ul>

#### IV. Project Sponsor

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Financial Capacity	<ul style="list-style-type: none"> <li>Inadequate financial capacity to meet financial guarantees/ obligations of project and other projects sponsored by developer</li> <li>Inadequate financial capacity to maintain adequate staffing, systems</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient cash flow to meet financial obligations</li> <li>With tax credit projects, slow lease up or non-compliance that result in lower than anticipated tax credits</li> <li>Inability to provide adequate financial, regulatory reports</li> </ul>	<ul style="list-style-type: none"> <li>Identify additional sources of funding to meet obligations</li> <li>Identify financial partners for developer</li> <li>Identify new developer</li> </ul>	<ul style="list-style-type: none"> <li>Review financial capacity of developer in comparison to financial obligations</li> <li>Specify net worth, operating deficit, other guarantees, that can be funded by developer fees generated by the project</li> <li>With tax credit projects, identify developer, consultants with strong track record</li> </ul>

Issue	Potential Problems	Indicators	Possible Actions	Preventive Measures
Asset Management/ Accounting Capacity	<ul style="list-style-type: none"> <li>• Inadequate staff capacity to oversee project, other projects sponsored by developer</li> <li>• Inadequate system capacity to track project, other projects sponsored by developer</li> <li>• Inability to provide accurate/timely reports to funding sources</li> </ul>	Inability to provide adequate financial, regulatory reports on a timely basis	<ul style="list-style-type: none"> <li>• Identify property manager that can act as asset manager</li> <li>• Identify new project sponsor</li> </ul>	Identify property manager or developer with strong track record
Other Projects	<ul style="list-style-type: none"> <li>• Other projects sponsored by developer experiencing financial problems</li> <li>• Other projects sponsored by developer experiencing defaults</li> </ul>	Contact from funders regarding other projects	Depending upon extent of problem, identify new project sponsor/receiver	<ul style="list-style-type: none"> <li>• Cross default provisions, if possible</li> <li>• Review financial statements of project sponsor</li> </ul>

**APPENDIX A**  
**ANALYSIS OF REVENUE SOURCES FOR A HOUSING TRUST FUND**  
**HOUSING TRUST FUND**  
**POLICY GUIDELINES, PRACTICES, AND**  
**PROGRAM ADMINISTRATION**

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**Table of Contents**  
**City of Long Beach**  
**Housing Trust Fund Policies, Practices and Program Administration**  
**Appendix A: Analysis of Revenue Sources**

	<u>PAGE</u>
A. Criteria for Assessing Potential Revenue Sources .....	3
B. Alternative Revenue Sources .....	3
1. Commercial Linkage Fees .....	3
2. Inclusionary Housing In Lieu Fee .....	5
3. Private Foundation Support .....	7
4. Private Corporation Support .....	8
5. Infrastructure Financing District .....	10

# **CITY OF LONG BEACH HOUSING TRUST FUND STUDY**

## **ANALYSIS OF REVENUE SOURCES FOR HOUSING TRUST FUND**

**June 13, 2003**

The City of Long Beach (City) is interested in identifying ongoing, stable sources of subsidies to support the development of affordable housing in the City. These ongoing sources of subsidies would be used to fund a Housing Trust Fund dedicated to affordable housing for very low, low, and moderate income persons.

Current sources of affordable housing subsidies available to the City are HOME funds, CDBG funds, and redevelopment agency tax increment housing set-aside funds. Because these sources are insufficient to meet the need for affordable housing in the City, the City is interested in identifying additional resources that can promote the development of affordable housing. This section provides an analysis of potential revenue sources for a housing trust fund.

This report evaluates the following potential revenue sources:

- commercial linkage fees;
- inclusionary housing in lieu fees;
- foundation support;
- corporate support; and,
- infrastructure financing districts.

Table 1 summarizes the analysis of these revenue sources according to the criteria described below.



**Table 1**  
**City of Long Beach Housing Trust Fund Study**  
**Analysis of Potential Revenue Sources for Housing Trust Fund**

Potential Revenue Source	Election/ Adoption Requirements	Ability to Raise Funds for Affordable Housing	Degree of Control by City Staff	Cost of Developing Resource	Successful Development in Other Cities
<b>Commercial Linkage Fee</b>	Vote of Council or Board of Supervisors	High potential for raising funds, depending upon applicability of ordinance	High degree of control by City staff	Relatively low cost	At least 17 jurisdictions in California
<b>Inclusionary Housing, In lieu Fees</b>	Vote of Council or Board of Supervisors	High potential for raising funds, depending upon applicability of ordinance	High degree of control by City staff	Relatively low cost	At least 80 jurisdictions in California have inclusionary requirements <sup>1</sup>
<b>Foundation Support</b>	Not applicable	Very low potential	None, except in rare cases	Not applicable <sup>2</sup>	Rare success
<b>Corporate Support</b>	Not applicable	Low potential	None	Not applicable <sup>2</sup>	Rare success
<b>Infrastructure Financing Districts</b>	Vote of Council or Board of Supervisors, Supporting resolutions from affected tax entities, two-thirds vote of qualified electors	Depends upon allocation of tax increment to county office of education, school or community college district, rate of development.	High degree of control by City staff	Depends upon extent of election campaign	Rare success

<sup>1</sup> Northern California Association of Nonprofit Housing is currently conducting a statewide survey of inclusionary housing programs. This survey has not been completed. Currently, NPH has verified the existence of over 80 jurisdictions that impose inclusionary requirements on developers. This figure is subject to increase depending upon the further research efforts of NPH staff. A 1995 study by the State identified 120 jurisdictions with inclusionary housing programs.

<sup>2</sup> Historically, local jurisdictions have not underwritten efforts to secure foundation and corporate support for housing trust funds. Typically, development of partnerships between local governments, foundations, and corporations require local government leadership participation.

## **A. Criteria for Assessing Potential Revenue Sources**

The following criteria are used to evaluate potential revenue sources:

- election and other adoption requirements: the adoption requirements of a potential revenue source can have a significant effect on the success of establishing a revenue source for a housing trust fund. Generally, potential revenue sources subject to general elections are difficult to adopt. In most cases, sources subject to general elections require a supermajority vote for successful passage. Other sources, such as commercial linkage fees, require adoption by a City Council. Private sources, such as foundation support, are not subject to public approvals of any kind.
- ability to raise funds for affordable housing.
- degree of control by City staff: depending upon the source of funds for a housing trust fund, City staff may or may not have control over developing programs and policies for the use of housing trust funds.
- cost of developing revenue source.
- successful development of revenue source in other cities.

## **B. Alternative Revenue Sources**

### **1. Commercial Linkage Fees**

Many cities in California impose development impact fees on non-residential development to mitigate the increase in housing demand generated by such development. Future employment growth will generate demand for housing affordable to lower and moderate income workers. Through the payment of fees on commercial development, non-residential developers mitigate at least a portion of the impact of their development activities on the housing market.

#### **a. Election and Adoption Requirements**

Commercial linkage fees can be adopted by a City Council or Board of Supervisors.

To implement a commercial linkage fee, a California jurisdiction must conduct a “nexus” study to establish the link between new commercial development and an increase in the demand for housing affordable to very low, low, and moderate income persons. A nexus

study also defines the amount of a justifiable fee on commercial development to support affordable housing. David Paul Rosen & Associates (DRA) is conducting a commercial linkage fee nexus study on behalf of the City. In summary, DRA is estimating affordable housing need resulting from commercial development and calculating justifiable nexus fee amounts.

#### **b. Ability to Raise Funds for Affordable Housing**

The ability of a commercial linkage fee to raise funds for affordable housing is based on the following factors:

- applicability of linkage fee;
- fee amounts; and,
- level of commercial development.

When designing a commercial linkage fee program, a jurisdiction will look at a number of factors that will affect the amount of revenue the fee can generate. One important factor is the applicability of the linkage fee. There are several important issues for a jurisdiction to consider. First, jurisdictions with commercial linkage fees typically exempt smaller developments. A minimum threshold size, if any, will affect the level of fees generated by a linkage program. Typically, this is expressed in gross square footage of a development. Second, jurisdictions must decide which commercial uses must pay a linkage fee (e.g. retail, manufacturing, office, entertainment, warehouse, research and development, etc.). Third, jurisdictions typically define which developments are exempt from paying a commercial linkage fee because the development was already in the “pipeline” when the fee was adopted. In this instance, it may appear unfair to impose a fee on developers with commercial projects underway because the cost of the fee was not incorporated in the developers’ analyses of economic return.

A critical component of a commercial linkage fee program is the fee amount imposed on developments. In almost all cases, fees adopted by jurisdictions are lower than fees justified by a nexus study. In other words, most jurisdictions do not believe it is feasible to impose fees at the levels determined by a nexus study.

Clearly, the level of future commercial development in conjunction with the applicability of the linkage fee may have a significant effect on the amount of revenues generated by a commercial linkage fee. For example, if a jurisdiction exempts commercial uses that will dominate future commercial development in the jurisdiction, then the potential to raise revenues from the commercial linkage fee is diminished. Conversely, applying the linkage fee to these commercial uses will enhance the ability of a commercial linkage program to raise revenues for a housing trust fund.

**c. Degree of Control by City staff**

Typically, City staff have complete control over the use of commercial linkage fees. The only restrictions on the use of the fees is based on the policy decisions made when adopting the fee.

**d. Cost of Developing Revenue Source**

The cost of developing a commercial linkage fee is relatively low. In addition to the cost of developing a nexus analysis and drafting an ordinance, a jurisdiction may hold public meetings to discuss issues regarding a commercial linkage fee program.

**e. Successful Development of Revenue Source in Other Cities**

There are at least 17 jurisdictions in California with commercial linkage fee ordinances (see commercial linkage fee survey conducted by DRA). Some of the larger cities in the state - San Diego, San Francisco, Oakland, and Sacramento – have commercial linkage fee ordinances. Los Angeles adopted a fee ordinance but has not activated it.

**2. Inclusionary Housing In Lieu Fee**

An inclusionary housing program secures the participation of private developers to assist with meeting affordable housing demand. Under an inclusionary housing program, developers can construct affordable housing units as part of their market rate developments. Often, developers are allowed to pay a fee in lieu of constructing affordable units. Most jurisdictions with inclusionary housing programs provide developers with the option to pay an in lieu fee. These fees are collected by the local jurisdiction and then used to subsidize the development and/or preservation of affordable housing.

**a. Election and Adoption Requirements**

An inclusionary housing ordinance with an in lieu fee option can be adopted by a City Council or Board of Supervisors.

Although not required, a jurisdiction can conduct an economic analysis to help determine an appropriate amount for an in lieu fee. An in lieu fee is the fee paid when a developer does not provide an affordable housing unit under an inclusionary housing program. Therefore, some jurisdictions will require developers to pay a fee sufficient to subsidize the development of an affordable unit at an alternative location. For example, the City of Fremont requires developers to pay an in lieu fee equal to the difference between the cost of developing an affordable housing unit and the home price a moderate income household can afford. Further, Fremont restricts the types of housing developments eligible to pay in lieu in order to encourage developers to construct affordable housing units rather than pay in lieu fees.

## **b. Ability to Raise Funds for Affordable Housing**

Similar to a commercial linkage fee, the ability of an in lieu fee to raise funds for affordable housing is based on the following factors:

- applicability of the inclusionary ordinance;
- fee amount; and,
- level of residential development.

An important factor is the applicability of the inclusionary housing ordinance. First, most, but not all, jurisdictions with inclusionary housing ordinances exempt smaller developments. Lowering or eliminating the threshold size of developments means that more developments are subject to inclusionary requirements. In turn, this means that more developments must build affordable units or pay in lieu fees. In addition, lowering or eliminating the threshold size of developments often results in “fractional” unit. For example, an inclusionary requirement of 20 percent affordable units results in fractional unit requirements on any development with less than five units. In these cases, a developer can pay a fee rather than provide an affordable unit.

Second, jurisdictions should define which developments, if any, are exempt from inclusionary requirements because the development was already in the pipeline when the ordinance was adopted. In these cases, it may be unfair to impose inclusionary requirements on developers with residential projects underway because the inclusionary requirements were not incorporated in developers’ analyses of economic return. Jurisdictions have a number of choices when determining which projects are exempt from a new inclusionary requirements. In some cases, jurisdictions will only exempt projects that have paid for their building permits. Other jurisdictions exempt developments that have approved preliminary maps.

The amount of an in lieu fee can affect potential revenues in two ways. First, if a fee is relatively low compared to the cost of building an affordable housing unit on the same site as the market rate development, then developers will choose to pay the fee. In this instance, paying the fee is cheaper to the developer than providing the affordable unit. However, fewer affordable units will be constructed when compared to on-site compliance. In order to create incentive for developers to provide affordable units on-site, in lieu fees would have to be set at a level comparable to the difference between the cost of developing an affordable unit and the amount a very low, low, or moderate income household can afford.

Second, the amount of the fee in conjunction with the level of future housing development will have a significant effect on the amount of revenues generated by an in lieu fee.

**c. Degree of Control by City staff**

City staff have complete control over the use of in lieu fees. Any restrictions on the use of fee revenues is based on the policy decisions made when adopting the inclusionary ordinance.

**d. Cost of Developing Revenue Source**

The cost of developing an inclusionary housing ordinance is relatively low, with costs related to drafting an ordinance and, at the choice of the jurisdiction, holding public meetings to discuss issues regarding an inclusionary housing program. In addition, a jurisdiction may wish to conduct an economic analysis to help determine the amount of an in lieu fee and the value of other alternative compliance measures. DRA will conduct an economic analysis to assist the City with determining appropriate inclusionary set-aside percentages, target income levels, in lieu fee amounts, the value of alternative compliance strategies, and the value of offsets and incentives provided to developers building affordable units.

Finally, a jurisdiction should document the relationship between an inclusionary housing program and the jurisdiction's affordable housing needs.

**e. Successful Development of Revenue Source in Other Cities**

According to a survey by the Northern California Association of Nonprofit Housing (NPH), at least 80 jurisdictions in California have inclusionary housing ordinances. This figure is subject to increase depending upon the further research efforts of NPH staff. Because NPH has not completed the survey, it is not yet known how many of these jurisdictions have adopted in lieu fees as part of their inclusionary housing programs. However, almost all jurisdictions offer alternative compliance options, with payment of fees in lieu of providing affordable units the most popular form of compliance option. A 1995 study by the State of California identified 120 jurisdictions with inclusionary housing programs.

**3. Private Foundation Support**

Private foundations have a long history of supporting affordable housing development. Foundations such as the Marin Community Foundation, the Koret Foundation, the Ford Foundation, the Irvine Foundation, the Fannie Mae Foundation, the Rockefeller Brothers Fund, the Mott Foundation, San Francisco Foundation, and the MacArthur Foundation, have been active in supporting affordable housing.

For the most part, foundations support affordable housing development through direct funding of developments or, more typically, funding of financial intermediaries such as the Low Income Housing Fund (LIHF), The Enterprise Foundation, or the Local Initiatives

Support Corporation (LISC). Intermediaries such as LIHF or LISC then provide direct funding of affordable housing development through grants or loans to nonprofit affordable housing developers. When foundations directly fund affordable housing developments, the funding is often in the form of a program-related investment (PRI). A PRI is a loan, not a grant, and therefore must be repaid. PRI's typically carry below market rate interest loans but do not represent a funding source for a housing trust fund because the loans must be repaid.

Alternatively, foundations provide "capacity building" grants to nonprofit organizations to improve the nonprofits' ability to develop and support affordable housing. Typically, these grants are small and are not used for directly financing affordable housing developments.

In rare instances, foundations have contributed funds to support housing trust funds under the control of a governmental agency. For example, the Hennepin County (Minnesota, including Minneapolis) Housing and Redevelopment Authority administers the Affordable Housing Incentive Fund, which has dedicated \$8.4 million in local government money and \$3 million from the McKnight Foundation to help finance affordable housing development in the County. Contributions from private foundations to housing trust funds administered by a government agency are rare and should not be considered a viable resource. DRA is not aware of an instance where a foundation has funded a government agency-controlled housing trust fund in California.

One example of foundation support to a housing trust fund is the Housing Trust of Santa Clara County. Administered by a nonprofit organization, the Fund raised over \$20 million from public and private sources. Most funds were provided by private corporations and local government agencies. Approximately \$2 million was raised from private foundations and private donors. A description of the Housing Trust is in the next section.

#### **4. Private Corporation Support**

Private corporations do not typically contribute funds to housing trust funds. DRA is not aware of any circumstance where a corporation contributes to a housing trust fund administered by a government agency. In rare instances, corporations have helped create housing trust funds administered by non-governmental entities. One example in California is the Housing Trust of Santa Clara County, described below.

Because of Community Reinvestment Act requirements, private financial institutions often provide loans to affordable housing developments. In addition, private corporations often make equity investments for the benefit of low income housing tax credits. These loans and investments are at market rates, however.

Similar to private foundations, private corporations often support affordable housing development through financial intermediaries. Private corporations, especially financial institutions, support intermediaries such as LISC, LIHF, and the Enterprise Foundation. In

some instances the funds provided by private corporations to these financial intermediaries is below market rate funding.

**a. Housing Trust of Santa Clara County**

The Silicon Valley Manufacturers Group, a private industry group located in Santa Clara, led the effort to create the Housing Trust of Santa Clara County. The Housing Trust of Santa Clara County is a nonprofit organization that raised over \$20 million from private corporations, foundations and other donors, and local government agencies, to support affordable housing. Corporations provided over \$10 million to the Housing Trust. Adobe Systems, Advanced Micro Devices, Applied Materials, Cisco Systems, Hewlett-Packard, Intel, and Knight Ridder/San Jose Mercury News contributed \$1 million each to the Housing Trust.

The Housing Trust was created by a consortium of corporate leaders, housing advocates, and local government officials to address the problem of high housing costs in the Silicon Valley area. The Trust Fund provides low-interest down payment/closing cost loans for first time homebuyers, gap financing for affordable rental housing projects, and funds to assist the homeless.

While local government agencies participate in the governance of the Trust Fund and have contributed a large portion of the funds, the Trust Fund is operated outside the control of any governmental agency. The Board of Directors is comprised of representatives from local governments, corporations, nonprofit housing developers, and other housing advocates. The Housing Trust has an executive director on staff and uses Lenders for Community Development as loan fund administrator for the Housing Trust. Lenders for Community Development, a nonprofit community development financial institution, reviews, recommends, processes, and monitors loans from the Trust Fund.

**b. Employer-Assisted Housing**

Another form of housing assistance provided by corporations is employer-assisted housing. Some major employers have participated in employer-assisted housing programs to further affordable housing opportunities in their communities. Employers may provide assistance in the form of downpayment assistance, credit enhancement, or leveraged banking/institutional relationships to assist employees with the purchase of homes. For the most part, employers that participate in these programs are municipalities and universities, although a few corporations, such as Computer Associates, Tyson Foods, Honeywell, Harley-Davidson, Kaiser Permanente, and the GMAC companies, have also participated in these programs (according to research by the Fannie Mae Foundation).

In California, there are examples of partnerships between local government agencies and corporations to further homeownership opportunities. In Santa Barbara, the Coastal Housing Partnership (CHP) collaborates with financial institutions and local employers to



provide special mortgage financing. Created in 1987, CHP is a nonprofit organization that has 65 local employers as members. These members are both corporations and local government agencies. Through financial institution partners, CHP offers low downpayment mortgages with no requirement for mortgage insurance. In addition, these loans allow for second mortgages to lower the monthly payments to homebuyers.

The California Housing Loan Insurance Fund (CaHLIF) has created partnerships between private corporations and local governments to assist homebuyers. Through entities such as the Orange County Affordable Homeownership Alliance (OCAHA) or the California State Teachers' Retirement System (CalSTRS), homebuyers are offered low downpayment loans as well as downpayment assistance loans. For example, OCAHA offers three percent (of purchase price) deferred payment loans at five percent interest that can be used for downpayments or to buy down the interest rate on the first mortgage. Additionally, OCAHA offers a two percent (of purchase price) deferred payment loan at five percent interest to buy down the mortgage insurance rate. OCAHA was created by large businesses and nonprofit organizations operating in Orange County. Members include Merrill Lynch, the Orange County Business Council, the Orange County Housing and Community Development Department, the Building Industry Association of Orange County, Wells Fargo Bank, GMAC Commercial Mortgage, and The Olson Company.

With CalSTRS, low downpayment loans with no out of pocket expenses for recurring and non-recurring closing costs are offered. In addition, second mortgages from a local government agency or employer-assisted housing program are allowed.

The AFL-CIO developed a Housing Investment Trust to promote affordable housing opportunities. For the most part, the AFL-CIO programs provide market rate financing that can be leveraged with affordable housing subsidies from other resources.

Each of these programs represent a form of partnership between corporations and local government agencies. Although none of these programs result in contributions to a local government housing trust fund, each program requires some form of financial participation by a corporation. Generally, these programs should be viewed as sources of leverage for affordable housing subsidies rather than resources for affordable housing subsidies.

## **5. Infrastructure Financing Districts**

According to Goldfarb & Lipman's research, Sections 53395 et seq. of the Government Code allows for creation of an infrastructure financing district to finance "the purchase, construction, expansion, improvement, seismic retrofit, or rehabilitation of any real or other tangible property with an estimated useful life of 15 years or longer," as well as the planning and design work related to such activities, provided that the District "shall finance only public capital facilities of community-wide significance." The Government Code

provides an inclusionary housing requirement for dwelling units constructed by a District, which suggests that housing development is also an appropriate activity for a District.

The requirement that Districts finance only "public capital facilities" raises questions regarding the ownership and operation of such units. According to Goldfarb, it may be that to qualify as "public capital facilities," housing developed by the District would have to be owned by a public agency or perhaps a publicly-controlled nonprofit.

This requirement may not necessarily be an issue in Long Beach because of the creation of the Long Beach Housing Development Company. Created by the City of Long Beach, the Long Beach Housing Development Company may be sufficiently controlled by the City to meet the definition of public agency or publicly-controlled nonprofit described above.

A District may not include any portion of a redevelopment project area, and it may not be used to finance facilities or services already available within the territory of the District when the District was created.

#### **a. Election and Other Adoption Requirements**

##### **1. City Council Adoption of Resolution**

According to Goldfarb, forming a District begins with the city council adopting a resolution of intention that describes the boundaries of the proposed district, describes the type of public facilities to be financed by the District, states the city's intention that tax increment be used to finance such facilities, and fixes a time and place for the public hearing on the proposal.

##### **2. CEQA-Required Analysis**

Once the resolution of intention has been adopted, the city must prepare and send to each owner of land within the proposed District and each affected taxing entity, along with any CEQA-required environmental analysis, an infrastructure financing plan that is consistent with the city's general plan and includes, among other elements, a date by which the District will cease to exist not more than 30 years after its creation.

##### **3. Consultation and Supporting Resolutions from Affected Taxing Entities**

The city is required to consult with the affected taxing entities, and is prohibited from enacting a resolution proposing formation of the District unless a resolution approving the infrastructure financing plan has been adopted by the governing body of each affected taxing entity and has been filed with the city council. Significantly, any affected taxing entity can veto a District's creation by failing to adopt a supporting resolution. Securing necessary supporting resolutions can be difficult. Affected taxing entities, such as the

County, water district, etc., may oppose formation of a District because tax revenues that would go to the taxing entities are diverted to other uses.

County offices of education, school districts, and community college districts are excluded from the definition of "affected taxing entities," meaning that their approval is not necessary for formation of a District. Significantly, this also means that, unlike a redevelopment agency, a District will never receive a share of the tax increment otherwise allocable to a county office of education, school district, or community college district. According to Goldfarb, depending upon location, approximately 20 percent to 60 percent of tax increment revenues go to county offices of education, school districts, or community college districts.

#### **4. City Council Adoption and Vote of Electors**

After giving proper notice as described in Government Code Section 55395.17, the city council would ultimately vote on a resolution proposing formation of a District. If the city council adopts the formation resolution, the proposal is then submitted to "the qualified electors of the proposed district in the next general election or special election to be held," which in the event of a special election may be conducted by mail. If there are fewer than twelve registered voters in the proposed District, the vote is by the landowners of the proposed district, with each landowner given one vote for each acre or portion of an acre that he or she owns within the territory of the proposed district. If there are twelve or more registered voters within the territory of the proposed District, the vote is by the registered voters of the proposed District.

The proposal must be approved by two-thirds of the votes cast to become effective.

##### **b. Ability to Raise Funds for Affordable Housing**

The ability to raise funds for affordable housing is dependent upon three factors:

- amount of development in the District;
- timing of development in the District; and,
- amount of taxes that must be apportioned to the county office of education, school district, or community college district.

Depending upon the location of a District, there is a great potential for raising funds through this method. For example, the Boeing-owned site can generate a tremendous amount of tax revenues depending upon the development strategy employed for the site. However, there is a 30-year time frame for raising funds through a District. Therefore, the timing of development is critical with this limited time frame, especially if the City is interested in financing the stream of revenues from the District.

In California, the typical range of tax increment revenues that go toward county offices of education, school districts, and community college districts is approximately 20 percent to 60 percent. Although this range implies that a large percentage of revenues go to these entities, if the amount of tax increment is sufficiently large, as is possible with the Boeing site as one example, the District could raise a significant amount of funds for affordable housing.

**c. Degree of Control by City Staff**

City staff have complete control over the use of in lieu fees. Any restrictions on the use of fee revenues is based on the policy decisions made when adopting the District.

**d. Cost of Developing Revenue Source**

The cost of developing a District depends upon the need for a widespread political campaign to adopt the District. In the case of the Boeing site, for example, there is no need for such a campaign because of the existence of only two qualified electors, Boeing and the City of Long Beach. In other areas, of course, there may be the need for an intensive campaign depending upon the number of registered voters living in the proposed District.

**e. Successful Development of Revenue Source in Other Cities**

According to Goldfarb, Districts do not appear to be a widely used tool for financing infrastructure development. The exclusion of tax increment from school districts, the ability of any affected taxing entity to veto a District's creation by failing to adopt a supporting resolution, and the thirty-year limit on the life of a District all limit the ability of cities to use Districts to finance infrastructure development.

**APPENDIX B**

**ANALYSIS OF REVENUE PROJECTIONS**

**HOUSING TRUST FUND**  
**POLICY GUIDELINES, PRACTICES, AND**  
**PROGRAM ADMINISTRATION**

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June 13, 2003

**Table of Contents**  
**City of Long Beach**  
**Housing Trust Fund Policies, Practices and Program Administration**  
**Appendix B: Analysis of Revenue Projections**

	<u>PAGE</u>
A. Introduction .....	1
B. Commercial Linkage Fees .....	1
C. Inclusionary Housing In Lieu Fee .....	4
D. Infrastructure Financing District .....	8

**CITY OF LONG BEACH**  
**HOUSING TRUST FUND STUDY**  
**ANALYSIS OF REVENUE PROJECTIONS**

**June 13, 2003**

**A. Introduction**

One important criterion for selection of an appropriate revenue source for a housing trust fund is the ability to raise funds for affordable housing. From the analysis of potential revenue sources, David Paul Rosen & Associates (DRA) conclude that commercial linkage fees, in lieu fees from an inclusionary housing program, and infrastructure district financing have the greatest potential for successfully capitalizing a housing trust fund. Other potential sources such as foundations and corporations are not likely to be successful means for capitalizing a housing trust fund administered by the City, although there have been occasions when foundations and corporations assist with capitalizing a housing trust fund administered by a non-governmental entity.

This report analyzes potential revenues from three possible revenue sources:

- commercial linkage fees;
- in lieu fees from an inclusionary housing program; and,
- infrastructure district financing.

**B. Commercial Linkage Fees**

As we discussed in DRA's analysis of appropriate revenue sources, the ability of a commercial linkage fee to raise funds for a housing trust fund is based on the applicability of linkage fee, the amount of the fee, and the level of commercial development.

**Table 1** provides projections of linkage fee revenues at alternative fee levels based on the current pipeline of major development projects in Long Beach (as defined in the City of Long Beach Major Projects list, March, 2003). **Table 2** summarizes these results. The projections are based on fees ranging from \$2.00 to \$10.00 per square foot of commercial development. Fees ranging from \$2.00 per square foot to \$10.00 per square foot are significantly lower than the justifiable linkage fees defined by the nexus analysis.

Table 1

**COMMERCIAL DEVELOPMENT IMPACT FEE REVENUE PROJECTIONS  
FROM THE CURRENT DEVELOPMENT PIPELINE  
CITY OF LONG BEACH**

<b>2003</b>					
	<b>Office</b>	<b>Retail/ Commercial</b>	<b>Hotel (1)</b>	<b>Industrial (2)</b>	<b>TOTAL</b>
<b>Development Pipeline (SF) (3)</b>					
Entitlements Granted	292,000	52,834	173,250	368,328	886,412
Preliminary	0	23,636	149,250	545,135	718,021
<b>Total Development Pipeline</b>	<b>292,000</b>	<b>76,470</b>	<b>322,500</b>	<b>913,463</b>	<b>1,604,433</b>
<b>Projected Fee Revenues</b>					
Revenues from Projects with Entitlements					
At a Per Square Foot Fee of:					
\$2.00	\$584,000	\$105,668	\$346,500	\$736,656	\$1,772,824
\$4.00	\$1,168,000	\$211,336	\$693,000	\$1,473,312	\$3,545,648
\$6.00	\$1,752,000	\$317,004	\$1,039,500	\$2,209,968	\$5,318,472
\$8.00	\$2,336,000	\$422,672	\$1,386,000	\$2,946,624	\$7,091,296
\$10.00	\$2,920,000	\$528,340	\$1,732,500	\$3,683,280	\$8,864,120
Revenues from Projects in Preliminary Stage					
At a Per Square Foot Fee of:					
\$2.00	\$0	\$47,272	\$298,500	\$1,090,270	\$1,436,042
\$4.00	\$0	\$94,544	\$597,000	\$2,180,540	\$2,872,084
\$6.00	\$0	\$141,816	\$895,500	\$3,270,810	\$4,308,126
\$8.00	\$0	\$189,088	\$1,194,000	\$4,361,080	\$5,744,168
\$10.00	\$0	\$236,360	\$1,492,500	\$5,451,350	\$7,180,210
<b>Total Projected Fee Revenues (2)</b>					
<b>\$2.00</b>	\$584,000	\$152,940	\$645,000	\$1,826,926	\$3,208,866
<b>\$4.00</b>	\$1,168,000	\$305,880	\$1,290,000	\$3,653,852	\$6,417,732
<b>\$6.00</b>	\$1,752,000	\$458,820	\$1,935,000	\$5,480,778	\$9,626,598
<b>\$8.00</b>	\$2,336,000	\$611,760	\$2,580,000	\$7,307,704	\$12,835,464
<b>\$10.00</b>	\$2,920,000	\$764,700	\$3,225,000	\$9,134,630	\$16,044,330

(1) Assumes an average of 750 gross square feet per hotel room applied to number of hotel rooms in the pipeline.

(2) The "industrial" pipeline consists primary of self-storage facilities.

Source: David Paul Rosen & Associates.



**Table 2**

**Commercial Linkage Fee Projections Assuming  
Fees Ranging from \$2.00 to \$10.00 per Square Foot  
Based on Major Projects List, March 2003 (1)**

<b>Commercial Linkage Fee Amount</b>	<b>\$2.00/sf Fee</b>	<b>\$4.00/sf Fee</b>	<b>\$6.00/sf Fee</b>	<b>\$8.00/sf Fee</b>	<b>\$10.00/sf Fee</b>
<b>Projects, Entitlements Granted</b>	\$1,772,824	\$3,545,648	\$5,318,472	\$7,091,296	\$8,864,120
<b>Projected Projects</b>	\$1,436,042	\$2,872,084	\$4,308,126	\$5,744,168	\$7,180,210
<b>Total, All Projects</b>	<b>\$3,208,866</b>	<b>\$6,417,732</b>	<b>\$9,626,598</b>	<b>\$12,835,464</b>	<b>\$16,044,330</b>

(1) Based on development pipeline as described in the City of Long Beach Major Projects list, March 2003.

The development pipeline is divided into two categories, “preliminary” and “entitlements granted”. These designations are based on stages of the planning approval process in Long Beach. Projects in the “preliminary” category are in the conceptual phase, although there has been some level of review by City Planning and Building staff, with developers having paid for that review. The Planning Commission has not approved these projects. Projects in the “entitlements granted” category have received approval of entitlements from the Planning Commission. Excluded are projects that are under construction. Typically, jurisdictions will not apply a new fee to projects that have secured building permits. Most jurisdictions believe that applying a new fee after construction has started represents an unanticipated cost to developers and is therefore an unfair burden.

The development pipeline also assumes that a commercial linkage fee is applied to all developments, regardless of size. Some jurisdictions, such as San Francisco and Oakland, establish a minimum size threshold when applying commercial linkage fee assessments. Others, such as Palo Alto and Sacramento, do not exempt smaller developments.

Assuming that all developments with entitlements granted are constructed, a fee of \$2.00 per square foot on office, retail/commercial, hotel, and industrial land uses would generate revenues of \$1.77 million. A fee of \$10.00 per square foot on these land uses would generate revenues of \$8.86 million.

Assuming that all developments in preliminary stages are constructed, a fee of \$2.00 per square foot would generate \$1.44 million in revenues. A fee of \$10.00 per square foot would generate fees of \$7.2 million.

In total, a \$2.00 fee on office, retail/commercial, hotel, and industrial land uses would raise approximately \$3.2 million in revenues, and a \$10.00 per square foot fees would raise approximately \$16 million.

These results demonstrate that a commercial linkage fee can generate substantial revenues to capitalize a housing trust fund, even at fee amounts substantially below justifiable fees as defined by the economic analysis.

## **2. Inclusionary Housing In Lieu Fee**

Similar to a commercial linkage fee, the ability of an in lieu fee to raise funds for affordable housing is based on the following factors:

- applicability of the inclusionary ordinance;
- fee amount; and,
- level of residential development.

**Table 3** provides projections of in lieu fees based on the City of Long Beach Major Projects list, March 2003. The projections are based on the following assumptions:

- all of the residential developments in the City of Long Beach Major Projects list are completed;
- all developers choose to pay the in lieu fee rather than provide inclusionary units; and,
- the per unit amount of the in lieu fee is tied to the affordability gap analysis.

In the projections in **Table 3**, we assume that in lieu fees are set at the actual affordability gaps. In general, most cities set in lieu fees at an amount lower than the affordability gap.

Table 3

**CITY OF LONG BEACH  
ACTIVE MAJOR HOUSING DEVELOPMENT PROJECTS (1)  
PROJECTIONS OF IN LIEU FEE REVENUES**

Address/Description	Dwelling Units	Affordability Gap/Unit	Inclusionary Requirement			In Lieu Fee Revenues		
			# of Units @ 10%	# of Units @ 15%	# of Units @ 20%	Fees @ 10%	Fees @ 15%	Fees @ 20%
ENTITLEMENTS GRANTED								
1. 23 4th Place Condominiums	10	\$42,831	1.00	1.50	2.00	\$42,831	\$64,246	\$85,661
2. 829 Pine Ave. Convert commercial bldg. to lofts	16	\$42,831	1.60	2.40	3.20	\$68,529	\$102,793	\$137,058
3. 835 Locust Avenue Condominiums (adaptive reuse of Masonic Temple and new construction)	82	\$42,831	8.20	12.30	16.40	\$351,211	\$526,816	\$702,422
4. 201-205 E. Broadway Conversion of Insurance Exchange Bldg.	11	\$42,831	1.10	1.65	2.20	\$47,114	\$70,670	\$94,227
5. 2001 River Ave. Transitional housing	201	\$141,911	20.10	30.15	40.20	\$2,852,419	\$4,278,629	\$5,704,838
"Entitlements Granted" Subtotal	320 units					\$3,362,103	\$5,043,155	\$6,724,207
PRELIMINARY								
1. 2080 Obispo Ave. Single-family homes	106	\$95,426	10.60	15.90	21.20	\$1,011,516	\$1,517,273	\$2,023,031
2. 248 Broadway Units over commercial	48	\$141,911	4.80	7.20	9.60	\$681,175	\$1,021,762	\$1,362,349
3. 1601 Pacific Ave. Apartments w/ density bonus	42	\$141,911	4.20	6.30	8.40	\$596,028	\$894,042	\$1,192,056
4. 6000 Loynes Condominiums	35	\$42,831	3.50	5.25	7.00	\$149,907	\$224,861	\$299,814
5. 6400 Pacific Coast Hwy. Residential development	302	\$42,831	30.20	45.30	60.40	\$1,293,484	\$1,940,226	\$2,586,968
6. 225 E. 12th St. Residential building	5	\$141,911	0.50	0.75	1.00	\$70,956	\$106,434	\$141,911
6. 200 E. Broadway Mixed-use w/ condos	62	\$42,831	6.20	9.30	12.40	\$265,550	\$398,325	\$531,099
"Preliminary" Subtotal	600 units					\$4,068,615	\$6,102,922	\$8,137,230
TOTAL	920 units		92.00	138.00	184.00	\$7,430,718	\$11,146,077	\$14,861,436

(1) Excludes projects already under construction.

Source: David Paul Rosen & Associates

Similar to justifiable commercial linkage fees, it is often politically difficult for jurisdictions to gain acceptance of in lieu fees that approximate the affordability gap amounts. There are exceptions, however. For example, the City of Sunnyvale's (Santa Clara County) in lieu fee equals the difference between the fair market value of an ownership housing unit and the price affordable to moderate income persons. In effect, Sunnyvale has set its in lieu fee at an amount at least equal to the affordability gap. For rental units, Sunnyvale's in lieu fee equals the difference between market rent for the units and the affordable rent, capitalized over twenty years.

Absent conditions that compel developers to construct inclusionary units, if an in lieu fee is lower than the amount of the affordability gap, developers choose to pay in lieu fees. This occurs because it is cheaper for a developer to pay the fee than to build the affordable unit. To promote the goal of increasing the development of affordable units with their inclusionary housing programs, many cities allow developers to pay in lieu fees only when construction of affordable units renders a development infeasible.

Assuming that in lieu fees are set at affordability gap amounts, a 10 percent inclusionary requirement results in generating \$7.2 million in fees, while a 20 percent inclusionary requirement increases that amount to a total of \$14.3 million. Again, these revenue estimates are based on the construction of all projects listed in the City's Major Projects list and that all developers choose to pay the fees rather than provide affordable units.

**Table 4** provides projections of in lieu fee revenues based on the City's Inventory of Residential Sites as incorporated in the City of Long Beach's 2000-2005 Housing Element. The 2000-2005 Housing Element lists sites where residential development can occur. These sites were identified as part of the City's obligation to fulfill its regional housing needs as determined by the Southern California Association of Governments.

These projections are based on the following assumptions:

- the potential sites are built to existing unit capacity;
- in lieu fees are set at affordability gap amounts; and,
- all developers choose to pay in lieu fees rather than build affordable units.

In addition, if a site is identified in the Housing Element as targeted to very low and low income households, we assume that the potential development will be a rental project. Therefore, we estimate in lieu fees based on rental development affordability gap amounts. If a site is identified as targeted to moderate income households, we assume that the potential development will be an ownership project. Consequently, the in lieu fee amounts are based on ownership development affordability gap amounts.

Table 4

**CITY OF LONG BEACH  
INVENTORY OF RESIDENTIAL SITES  
PROJECTIONS OF IN LIEU FEE REVENUES**

<u>Site Name</u>	<b>Inclusionary Requirement</b>					<b>In Lieu Fee Revenues</b>		
	<u>Unit Capacity</u>	<u>Affordability Gap/Unit</u>	<u># of Units @ 10%</u>	<u># of Units @ 15%</u>	<u># of Units @ 20%</u>	<u>Fees @ 10%</u>	<u>Fees @ 15%</u>	<u>Fees @ 20%</u>
1. West Gateway	587	\$141,911	58.70	88.05	117.40	\$8,330,199	\$12,495,299	\$16,660,398
2. Locust Avenue & 14th Street	107	\$141,911	10.70	16.05	21.40	\$1,518,452	\$2,277,678	\$3,036,904
3. Long Beach & 31st Street	91	\$141,911	9.10	13.65	18.20	\$1,291,394	\$1,937,091	\$2,582,787
4. Atlantic Ave. & Spring Street	80	\$74,641	8.00	12.00	16.00	\$597,128	\$895,692	\$1,194,256
5. Alamitos Ave & 4th Street	37	\$141,911	3.70	5.55	7.40	\$525,072	\$787,608	\$1,050,144
6. Long Beach & Burnett Avenue	35	\$141,911	3.50	5.25	7.00	\$496,690	\$745,035	\$993,380
7. Locust Ave & 12th Street	5	\$141,911	0.50	0.75	1.00	\$70,956	\$106,434	\$141,911
8. Long Beach/Eagle Street	18	\$141,911	1.80	2.70	3.60	\$255,441	\$383,161	\$510,881
9. Long Beach/10th Street	16	\$141,911	1.60	2.40	3.20	\$227,058	\$340,587	\$454,116
10. Lewis Ave & 11th Street	8	\$177,880	0.80	1.20	1.60	\$142,304	\$213,456	\$284,608
11. Lime Ave & 11th Street	8	\$177,880	0.80	1.20	1.60	\$142,304	\$213,456	\$284,608
12. 6954-80 Orcutt	6	\$95,426	0.60	0.90	1.20	\$57,256	\$85,883	\$114,511
13. Atlantic Ave & 21st Street	53	\$74,641	5.30	7.95	10.60	\$395,597	\$593,396	\$791,195
<b>TOTAL</b>	<b>1051 units</b>		<b>105.1</b>	<b>157.65</b>	<b>210.2</b>	<b>\$14,049,850</b>	<b>\$21,074,776</b>	<b>\$28,099,701</b>

Source: David Paul Rosen & Associates

Under these assumptions, a 10 percent inclusionary requirement would generate an additional \$14.0 million in fees, while a 20 percent requirement doubles that amount for a total of \$28.0 million in revenues.

In total, in lieu fees from developments identified in the Major Projects list and the Inventory of Residential Sites would generate approximately \$21.2 million under a 10 percent inclusionary requirement, and \$42.4 million under a 20 percent inclusionary requirement. These results are summarized in **Table 5**.

**Table 5**  
**Projections of In Lieu Fees at**  
**Alternative Inclusionary Requirements**  
**Major Projects List, March 2003**  
**Inventory of Residential Sites, 2000-2005 Housing Element**

<b>Inclusionary Requirement</b>	<b>10% Requirement</b>	<b>15% Requirement</b>	<b>20% Requirement</b>
<b>Major Projects List</b>	\$7,165,168	\$10,747,753	\$14,330,337
<b>Inventory of Residential Sites</b>	\$14,049,850	\$21,074,776	\$28,099,701
<b>Total</b>	<b>\$21,215,019</b>	<b>\$31,822,528</b>	<b>\$42,430,037</b>

### **3. Infrastructure Financing Districts**

Infrastructure financing districts do not generate additional revenues. Instead, infrastructure financing districts allow local jurisdictions to finance specific activities with property tax increment revenues. Therefore, an infrastructure financing district provides a local jurisdiction with the ability to direct property tax increment toward financing affordable housing activities.

The ability of an infrastructure financing district to direct funds toward affordable housing development is dependent upon three factors:

- amount of development in the district;
- timing of development in the district; and,
- amount of taxes that must be apportioned to the county office of education, school district, or community college district.

As we reported in our discussion of potential revenue sources for a housing trust fund, there is a great potential for raising funds for a trust fund depending upon the location of a district. The Boeing-owned site can generate a tremendous amount of tax revenues for capitalizing a trust fund depending upon the development strategy employed for the site. In addition, the Boeing site is not a redevelopment project area, which is critical because infrastructure financing districts cannot incorporate redevelopment project areas.

At this time, it is not possible to estimate the value of development on the Boeing site because no development plan has been established. Until a plan is developed, there is no accurate method for estimating potential proceeds from the creation of an infrastructure financing district. In addition, it is important to understand that the typical range of tax increment revenues that go toward county offices of education, school districts, and community college districts is approximately 20 percent to 60 percent. Therefore, an infrastructure financing district can direct 40 percent to 80 percent of all tax increment revenue toward capitalizing a housing trust fund. Because of the large size of the Boeing site, this range of tax increment revenue can be regarded as a potentially significant source of funds for a housing trust fund.